EXPORT PROMOTION AND SMALL BUSINESS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES
AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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EXPORT PROMOTION AND SMALL BUSINESS

FRIDAY, JULY 8, 1983

House of Representatives,
Subcommittee on Export Opportunities
and Special Small Business Problems,
Committee on Small Business,
Portland, Oreg.

The subcommittee met, pursuant to notice, at 8:30 a.m., in meeting room C, second floor, the Portland Building, 1120 Southwest Fifth Street, Portland, Oreg., Hon. Andy Ireland (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN IRELAND

Mr. **Ireland**. Good morning.

I am Andy Ireland. I want to welcome you to this congressional hearing on the subject of small business and its access to the export markets of the world.

Today's hearing is the first in a series of field hearings that our subcommittee will be conducting throughout the summer and early fall.

I think it is important to point out that one of the serious difficulties in dealing with the problems of small business is that the small businessman usually never gets an opportunity to be heard. He cannot come to Washington, as in the case with people in other lines of business affecting our economy. I think it is important that we travel around the United States to give the small businessman, regardless of the subject, an opportunity to have some input, and that, of course, is why we are here today.

Ninety-two percent of all American firms sell only in the United States, while over 93 percent of the world's population is outside the United States. Small firms are very often reluctant to explore foreign markets as a source of additional sales.

The reluctance stems from not knowing where to find out which countries want to buy their products, and other services that they produce. They fear the mechanics of selling, shipping, and particularly the mechanics of getting paid in foreign markets. They do not know how to go about getting assistance or consolidating the vast amount of information that is actually available.

The rewards for investing the time and the money in export expansion can be quite substantial. Indeed, the sustained growth of the U.S. economy, the jobs that can be obtained, I think we have all begun to realize, are in the export part of our national endeavor.

The Federal Government can do more to help us reach our true export potential. It must provide better access to export information, and it must see that the small business risk-taking entrepreneur in our markets and in our United States has an opportunity to operate. Our hearing today will give us the opportunity to take back to the Congress the information that we need to make the kind of decisions that will help this part of our economy.

It is a great pleasure for me to be in Portland, a delightful place for a Floridian to come, and quite cool. I thank you for your hospitality.

I would like to introduce to you a gentleman that obviously needs no introduction, a member of the Small Business Committee in the U.S. Congress, a great credit to the small business part of our economy, your very own Congressman, Ron Wyden.

OPENING STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. WYDEN. Thank you very much, Mr. Chairman. It is a pleasure to be able to officially welcome you here to Portland.

I think you and I both know that it is always congressional protocol to say a lot of nice things about a Member of Congress who comes to your district. We joke about it in the cloakroom sometimes. We tell people, "Don't come to our district because there is nothing nice we can say about you; you better not show up."

Well, in all honesty, with Andy Ireland there are not enough good things you can say, and that is in spite of the protocol regulations we seem to have.

I think most of us in the Congress understand that no one has done more in bringing visibility to the problems of small business and substantive action, substantive legislation that results from that exposure, than Andy Ireland. I think it is worth telling my friends and neighbors that a Member of Congress does not come 3,000 miles to hold a hearing unless they are particularly interested in the concerns and issues.

For that, I want to thank you on behalf of the people of Oregon for giving us a chance to focus on the problems of small business here in the Northwest.

Because international trade is so important to our State, I actively campaigned for a seat on the Small Business Export Subcommittee chaired by Andy Ireland when I came to the Congress about 2½ years ago. Chairman Ireland shares my very strong feelings about the importance of both small business and promoting international trade.

I think we know all across the country, from Portland, Maine, to Portland, Oreg., everybody is talking about exports. I think very few people are really talking about what it means, and what it means in terms of specific ways in which we can promote investment opportunities for small business.

What it means for the Oregon economy, I think, is really very clear. It means jobs, and perhaps a chance to come up with the biggest single source of jobs in the next decade. We have just been through the worst recession in this State since the Great Depression.

One of the reasons we have been hit so hard is that we have essentially been a one-industry State. The timber industry historically has been the primary show in town. When it is in the dust—as we have seen in the last few months, as a result of the recession—Oregon is pretty much flat on its back. I think we can do a lot to revitalize the timber industry. I am committed to doing that, but I think we have got to do more, and, in particular, we have got to tap into the Pacific rim markets and exploit our potential for exports.

We are a natural for increased trade and exports, and particularly with regards to small business.

Over 90 percent of all Oregon businesses have less than 50 employees. Nationally, small businesses create more than 80 percent of all the new jobs. When you couple that, plus the fact that we are a natural trade gateway to the Far East, you understand that this is a real lifeline for the Oregon economy from the standpoint of creating new jobs.

According to the latest U.S. census data, 15.4 percent of Oregon's manufacturing work force depends on exports. This places our State now in ninth place nationally in terms of per capita manufacturing participation in international commerce. With the economies of Japan, Korea, China, and Taiwan expected to grow at an annual rate of 25 percent over the next 10 years, Oregon is well positioned, ideally positioned, to win a substantial share of the Pacific rim's growing export needs.

I could sit here forever and speak about the potential benefits of exports and trade in the Northwest, because the statistics could fill a library. What I think we ought to focus on are, in particular, the ways in which we can tap potential that really has not been touched.

The Department of Commerce has estimated at least 20,000 small businesses that are now not exporting could do so profitably. Each additional $1 billion in exports results in a $2 billion increase in the gross national product and produces 40,000 new jobs. Hypothetically, if only 5,000 of the potential 20,000 small firms with export capabilities entered the export market and achieved, say, only a couple of hundred thousand dollars' worth of export sales each year, we would create about 40,000 new jobs.

Now, I don't have to tell you that is the kind of potential that makes my mouth water. That is the kind of potential we ought to be tapping here in the Northwest.

Let me conclude with just a couple of points.

Chairman Ireland has played an important leadership role in the Congress on these kinds of key issues. One of the things that our export community has been particularly concerned about is that some of the emphasis for the Export-Import Bank shift to additional opportunities for financing for small business.

In 1982, less than 3 percent of the funds for the Export-Import Bank were used to help finance small business exports. Chairman Ireland and I both agree that that should not be continued, that we ought to be directing more of the available loan capital from the Export-Import Bank to small business.

And now for the first time it looks like the Export-Import Bank is going to have a very direct, very specific mandate to go out and assist small business exports.

Chairman Ireland successfully offered an amendment to the Export-Import bill requiring that a percentage of the Bank's loan and loan guarantee authority—it will come to 6 percent next year and 10 percent the following year—be set aside just for small business.

Now, this provision is not designed to give any favoritism or any special consideration. All it is designed to do is make sure that small business receives a fair share of an existing Government export financing program.

Chairman Ireland was also instrumental in a second important undertaking this year to help small business exports, and that was through an amendment to the Small Business Act to establish a new small business export development program. Small businesses now are going to be able to apply to the SBA for grants or loans to cover the cost of export development activities. That would include initiatives like trade fairs, trade conferences, trade missions.

I have always felt that one of the best ways to promote small business is to establish these overseas contacts. We have got people stationed around the world in our Embassies and elsewhere, and we ought to be using them to promote investment opportunities. I could list more and more of Chairman Ireland's accomplishments. Again, that would turn into a program that would last most of the morning. But I think you get the idea of his leadership in this field.

I will conclude with just two points that I am particularly interested in, in hearing from our witnesses about today.

One deals with the Export Administration Act. The Export Administration Act expires on September 30 of this year. The Export Administration Act authorizes the President of the United States to limit exports of certain commodities and technologies for three general reasons—for national security, for foreign policy, or domestic short supply. It is essentially designed to prevent leakages of U.S. technology to the Soviet Union and its allies. We are now, in the Congress, on the Small Business Committee and several other committees, looking at this important legislation.

I would just like to say for the record that I am very hopeful that we don't shoot ourselves in the foot on this important legislation. When true national security considerations are involved, I will be the very first to say that is where we draw the line; that is where we don't send technology to the Soviet Union.

But I think in the past—we saw it with the pipeline—we have gone overboard; we have lost out on important investment opportunities, and what we have ended up doing is giving a big kick to American business, particularly small business, and that is about the last thing they need.

So, I will be very curious in hearing the thoughts of our witnesses on the Export Administration Act as well, because I think we need to do everything we can to streamline that act, come up with ways to reduce the redtape and the confusion.

Let's limit exports where it is truly in our national security interest; but where it is not in our national security interest, let's clear out the barriers.

Finally, I would very much like to hear from our witnesses about what we ought to be doing in the education field to promote export opportunities. Specifically, I think we need to consider whether or not we ought to make some changes in our educational system to promote exports.

One issue that comes to mind is beefing up our foreign language programs. One of the things I hear continually from small exporters is we ought to be doing more, if we are going to tap the Pacific rim markets, to educate our youngsters, particularly in Japanese, but also Chinese, and beef up across-the-board our foreign language programs, because our competition, which is also trying to tap those export markets, starts with their youngsters and their educational system at a very, very early level.

I am very anxious to hear from our witnesses on both of those issues, the Export Administration Act and whether there are things the Federal Government should do to promote foreign language training and other educational opportunities that will promote exports and export investments. So, with that, Mr. Chairman, let me thank you again and tell you how grateful I am for your taking the time from a busy schedule, and treking 3,000 miles to hear from Oregonians.

I very much appreciate all the leadership you have brought to this field, and the help you have given me as a young Member of Congress and someone on your committee.

Mr. IRELAND. Thank you, Ron. You are very kind. All I can remember is when I first came to Congress, I was in a single marital status. I took a very attractive lady to a function at the White House. Every time that I saw some great leader, they would come up and in her presence would say, "Gee, Andy is doing so well." Soon she turned to me and said, "Gee, I didn't realize you were that important."

I said, "the problem with this place is a lot of people believe those things."

I am delighted to be here. I want to introduce to all of you the minority staff director here today, Marv Topping.

Among the three of us, we will be looking forward to a fine hearing.

We will start out with the regional export specialist of the Office of International Trade of the Small Business Administration in Seattle, Wash., Mr. Balatero.

We are glad to have you.

TESTIMONY OF PRUDENCIO BALATERO, REGIONAL EXPORT SPECIALIST, OFFICE OF INTERNATIONAL TRADE, SMALL BUSINESS ADMINISTRATION, SEATTLE, WASH.

Mr. BALATERO. Mr. Chairman, Congressman Ireland, Congressman Wyden, members of this subcommittee, I am pleased to appear before you today to discuss the U.S. Small Business Administration's international trade program for the Small Business Administration in region X. The Pacific Northwest States of Alaska, Idaho, Oregon, and Washington comprise this region.

I do not intend to duplicate existing testimony, but for the record I reference the overview of SBA's philosophy and approach to international trade presented by Peter Terpeluk, Jr., before the Subcommittee on Export Promotion and Market Development Committee on Small Business, U.S. Senate, August 19, 1982. I have a copy of that testimony for submittal to you.

Mr. **Ireland**. Without objection.

Mr. **Balatero**. SBA Administrator James C. Sanders and Regional Administrator Stephen Hall firmly believe that international trade is a priority for SBA. Our regional management plans and district operating plans clearly outline objectives and actions supporting an aggressive international trade program.

I work full time in SBA's international trade program as the regional export development specialist in region X. I report to the regional administrator and work through our five district offices with the district directors, management assistance officers and loan specialists who have specifically designated international trade responsibilities.

Our basic program aims are to identify, motivate, inform, and assist potential and current small business exporters to export or to increase their exports. I believe that various local export assistance resources, including the U.S. Department of Commerce, working together can and will accomplish these aims. This has been our approach: leverage our effort with public and private sector support in a coordinated manner. This, we believe, is the intention of our program as mandated in Public Law 96-481.

Export assistance resources used in our program include SCORE [the Service Corps of Retired Executives]; ACE [Active Corps of Executives]; Federal, State, and local government agencies such as the International Trade Administration and the National Marine Fisheries Service of the Department of Commerce; the State Departments of Commerce and Economic Development; the United States and State Departments of Agriculture; universities, colleges, small business development centers, and the private sector, including international bankers, foreign freight forwarders, export management companies, chambers of commerce, trade associations, world trade clubs, et cetera.

Our office has published a directory of local export assistance resources in region X for small business persons interested in exporting. I have a copy of that publication which I will also submit for the record.

In addition, each SBA District Office has a small international trade library that is available to the small business person and to local export assistance resources. Some small businesses contact SBA for export development assistance as a result of attending an export conference. As of the end of May this year, 27 such conferences attended by over 2,700 business people have been cosponsored by SBA in region X.

Our present and past premise is that the majority of potential small business exporters that could use export development assistance do not know what is available nor where to go for relevant information.

There can be many reasons for this situation; for example, never considered exporting, fear of the unknown, the mystique of international trade, including the real or perceived roadblocks as published in "the Survey of Findings on Obstacles to Exporting Faced by Small Businesses" by the Senate Committee on Small Business, dated July 30, 1982. I have a copy of that survey for you also, sir.

I might add that my experience over the past 30 months indicates that these findings are quite correct. There is a great need for small business people to obtain up to date and relevant export information. Unfortunately, too many business persons do not know how to go about it.

Therefore, in the region we have an outreach program whereby we initiate contact with small businesses through SCORE volunteers with international trade backgrounds. There are presently 27 SCORE foreign trade counselors in region X participating in our export development program. The SCORE/ACE member volunteering his or her expertise in foreign trade makes this group our most cost-effective resource to assist small businesses in our international trade program.

These SCORE volunteers contact small businesses usually by telephone. They motivate and make counseling appointments with small business persons interested in learning more about exporting possibilities. The SCORE volunteer generally visits the place of business to counsel and to assess the business. Followup visits are made by the volunteer, inviting other pertinent export assistance resources as needed, that is, International Trade Administration representatives, a banker, et cetera.

I would like to share with you some examples of SCORE foreign trade counselors' assistance to small businesses and the success they have had.

Over 1 year ago, a SCORE volunteer and I visited a manufacturer of specialty farm machinery. We met and counseled the president and his general manager most of that working day. Although the product had been accepted domestically and appeared to be of high quality and marketable after 7 years of development, the firm was near bankruptcy. With their heavy debt and curtailed sales, we estimated that the business would stop operations within 90 days. Bankers were not interested in loaning them additional money. Time was crucial. One of the list of priority items we stressed was for them to locate an export management company [EMC] that specialized in farm machinery. The firm took this advice, researched and found an appropriate EMC. Within 4 weeks the EMC acquired $500,000 in sales orders to South America on the company's behalf.

Instead of closing their doors, the firm had to hire 35 additional persons in this depressed high unemployment location. A willing banker loaned them working capital based upon these export orders. Sometime later, a followup visit by our SCORE volunteer was made and he learned an additional $1 million in export sales had occurred through their EMC. Several months later, our SCORE volunteer contacted them again, and learned the firm received additional export sales orders for $3 million from the Middle East.

In another instance, a SCORE volunteer motivated a small manufacturer of finished wood cabinet doors to become interested in exporting. The firm's sales were stagnant at the time. Now the firm is exporting about $1 million of product to Norway.

Mr. **Ireland**. Mr. Balatero, let me interrupt you here.

I would like, with your permission, to put your entire statement in the record. We want to give everybody a chance to be heard.

What I would like you to do under each of your particular headings is make a comment on each one of these activities. Then I will have a question or two, and Mr. Wyden has some, and then we can get it all in. I am afraid otherwise we will run out of time. If you would comment on your general activities.

Mr. **Balatero**. Certainly.

Besides the counseling, SCORE/ACE foreign trade counselors provide training seminars and conferences. We also have another activity called the "Small Business Institute program," or SBI. It is an important management assistance program in our agency. Through the SBI, senior and graduate students of leading schools of business provide onsite management and counseling to small business owners. The students are guided by a faculty member and an SBA management assistance officer and receive academic credit for their participation in the institute.

In our region we encourage participation in the SBI, Small Business Institute, by the universities and colleges to include international trade type case studies.

For example, Oregon State University, here at Corvallis, Oreg., recently completed eight such small business studies in which international business majors served as consultants. These firms were very pleased with the results.

We have worked in cooperation with ITA [International Trade Administration] of the U.S. Department of Commerce by requesting and receiving the names of firms whom ITA felt could best use this Small Business Institute service in the Corvallis area. That is where we got the eight names. One of their international trade specialists, working closely with one of our SBA management assistance officers, followed up with a consultation with the students, I think that was a very important point in the success of the final report.

So in this instance, everyone would win, the business received indepth consultation and got research and a final report at no cost to them. We feel with successful implementation of recommendations of the report, this would increase U.S. exports and perhaps hopefully even employment. The students we look at as our future entrepreneurs. So they gain hands-on experience participating in this program.

Finally, the Government and private sector gain by the cooperative leverage of assistance.

I have for you, sir, an example of one of those Small Business Institute reports. We are quite proud of that program too.

We also participate in trade shows. SBA has a cooperative agreement with NOAA [National Oceanic and Atmospheric Administration] to encourage greater small business participation. SBA will pay the participation fee in overseas trade shows for a limited number of booths for small business participants.

The first event under that cooperative agreement was last November in Paris, the SIAL World Food Fair. A small business firm in our region was selected. NOAA allotted two exhibit spaces to SBA. So we are quite happy that one of the two booths came from this region. And that firm, as a result of their participation in the fair made some overseas sales. It was a first time for that firm to make export sales.

We had a highly successful Pacific Northwest Trade Conference and Exposition in Spokane, Wash., March 22 through 24 of this year. It drew some 650 conference participants attending from the Northwest, and over 8,000 visitors and trade delegates went through the exposition. Trade delegates represented some 35 foreign countries. There they sampled or viewed the products and services of 255 exhibitors from Alaska, Idaho, Montana, Oregon, Washington, and Wyoming.

I was quite pleased with the cooperation from all of the States, local agencies and the private sector. That really made it a success.

The bottom line was that a minimum of $25 million in sales were generated from buyers from such countries as India, Venezuela, Taiwan, Japan, France, and Germany. Extrapolating the repeat overseas business, it is estimated that within the next 12 to 18 months that will mean $100 to $150 million in sales as a result of this one trade show.

Our financial assistance program was somewhat slow to take off. However, in the past 12 months we have corresponded with about a thousand banks and had followup meetings with major banks to promote our financial assistance program, including our export revolving line of credit program to motivate them to participate in it.

Recently we have been seeing some fruits of this outreach program on our part. International bankers have been approaching our office and our district offices, wanting to know the specific details and how to process these loan applications under our loan guarantee program.

Recently our Portland district office approved a loan guarantee for $500,000 to a woman-owned lumber mill. Also recently, three other export-related loans were made; two in Idaho, and one in Washington State. It appears this program may be beginning to take off.

In the final section here, our changing trade environment, I refer to the World Economic Outlook Report of June 21, 1983, published by the International Monetary Fund [IMF]. They feel the prospects for 1983 and 1984 are for a modest but significant improvement in the international economic climate.

In the short term, the recent drop in oil prices will have a beneficial impact on the world economy and ease financial pressures on nonoil-developing countries, but it will increase economic and financial problems in a number of the oil exporting countries.

A strong U.S. dollar has caused difficulties for U.S. firms to be price competitive in the world market, but this is mainly due to lack of adequate foreign exchange and hard currencies by developing nations to pay for their imports.

However, in a recent seminar held here in Portland, international trade experts submit that they believe barter and countertrade practices will be associated with 50 percent of all world trade by the next decade. So perhaps barter and countertrade could possibly be a partial solution to the foreign exchange problem.

Also, we know Pacific rim countries are very important to our Pacific Northwest, and to the United States in trade exchange activities in the foreseeable future, certainly beyond the year 2000.

I feel positive government actions, primary local government actions, should take place in our public schools curriculum to encourage the inclusion of subject matters that educate and prepare our future entrepreneurs for domestic and international trade endeavors. These efforts should occur in the lowest grade level practical.

For example, I am not aware of Japanese, Chinese, or other Pacific rim language courses being offered in our grade and high schools in the Pacific Northwest region. Emphasis on the importance of international trade could be included in existing appropriate courses.

In conclusion, SBA takes the mandate of the Export Expansion Act provisions of Public Law 96-481 very seriously, Mr. Chairman. We in region X will give our international trade program the visibility and emphasis that the Congress and the President have requested. We will do it in partnership with the other Federal, State, and local public agencies and with the private sector. Increasing small business exports means increasing small business jobs, a stronger small business sector, and a stronger United States.

Mr. Chairman, that concludes my prepared statement. I will be happy to answer questions.

[Mr. Balatero's and Mr. Terpeluk's prepared statements, with attachments, follow:]

PREPARED STATEMENT OF PRUDENCIO BALATERO, REGIONAL EXPORT SPECIALIST, OFFICE OF INTERNATIONAL TRADE, SMALL BUSINESS ADMINISTRATION, SEATTLE, WASH.

I am pleased to appear before you today to discuss the U.S. Small Business Administration's International Trade Program for the Small Business Administration in Region X. The Pacific Northwest States of Alaska, Idaho, Oregon and Washington comprise this region.

SBA Administrator James C. Sanders and Regional Administrator Stephen Hall firmly believe that international trade is a priority for SBA. Our Regional Management Plans and District Operating Plans clearly outline objectives and actions supporting an aggressive International Trade Program.

I work full time in SBA's International Trade Program as the Regional Export Development Specialist in Region X. I report to the Regional Administrator and work through our five District Offices with the District Directors, Management Assistance Officers and Loan Specialists who have specifically designated international trade responsibilities.

Our basic program aims are to identify, motivate, inform, and assist potential and current small business exporters to export or to increase their exports. I believe that various local export assistance resources including the U.S. Department of Commerce working together can and will accomplish these aims. This has been our approach: leverage our efforts with public and private sector support in a coordinated manner. This, we believe, is the intention of our program as mandated in P.L. 96-481.

Export assistance resources used in our program include SCORE, the Service Corps of Retired Executives; ACE, Active Corps of Executives; federal, state, and local government agencies such as, the International Trade Administration and the National Marine Fisheries Service of the Department of Commerce, the State Departments of Commerce and Economic Development, the U.S. and State Departments of Agriculture; universities, colleges, Small Business Development Centers, and the private sector including international bankers, foreign freight forwarders, export management companies, Chambers of Commerce, trade associations, World Trade Clubs, etc.

Our office has published a directoryof local export assistance resources in Region X for small business persons interested in exporting. In addition, each SBA District Office has a small international trade library that is available to the small business person and to local export assistance resources.

Some small businesses contact SBA for export development assistance as a result of attending an export conference. As of the end of May this year, seven such conferences attended by over 700 business people have been cosponsored by SBA in Region X.

Our present and past premise is that the majority of potential small business exporters that could use export development assistance do not know what is available nor where to go for relevant information.

There can be many reasons for this situation, e.g., never considered exporting, fear of the unknown, the mystique of international trade, including the real or perceived roadblocks as published in The Survey of Findings on Obstacles to Exporting Faced by Small Businesses by the Senate Committee on Small Business dated July 30, 1982. I might add that my experience over the past 30 months indicates that these findings are quite correct. There is a great need for small business people to obtain up-to-date and relevant export information. Unfortunately, too many business persons do no know how to go about it.

SCORE/ACE INVOLVEMENT

Therefore, in the region we have an outreach program whereby we initiate contact with small businesses through SCORE volunteers with international trade backgrounds. There are presently 27 SCORE foreign trade counselors in Region X participating in our Export Development Program. The SCORE/ACE member volunteering his or her expertise in foreign trade makes this group our most cost effective resource to assist small businesses in our International Trade Program.

These SCORE volunteers contact small businesses usually by telephone. They motivate and make counseling appointments with small business persons interested in learning more about exporting possibilities. The SCORE volunteer generally visits the place of business to counsel and to assess the business. Follow-up visits are made by the volunteer inviting other pertinent export assistance resources as needed, i.e., International Trade Administration (ITA) representatives, a banker, etc.

I would like to share with you some examples of SCORE foreign trade counselors' assistance to small businesses and the success they have had.

Over a year ago, a SCORE volunteer and I visited a manufacturer of specialty farm machinery. We met and counseled the president and his general manager most of that working day. Although the product had been accepted domestically and appeared to be of high quality and marketable after seven years of development, the firm was near bankruptcy. With their heavy debt and curtailed sales, we estimated that the business would stop operations within 90 days. Bankers were not interested in loaning them additional money.

Time was crucial. One of the list of priority items we stressed was for them to locate an export management company (EMC) that specialized in farm machinery. The firm took this advice, researched and found an appropriate EMC. Within four weeks the EMC acquired $500,000 in sales orders to South America on the company's behalf.

Instead of closing their doors, the firm had to hire 35 additional persons in this depressed high unemployment location. A willing bankers loaned them working capital based upon these export orders. Sometime later, a follow-up visit by our SCORE volunteer was made and he learned an additional $1 million in export sales had occurred through their EMC. Several months later, our SCORE volunteer contacted them again, and learned the firm received additional export sales orders for $3 million from the Middle East.

In another instance, a SCORE volunteer motivated a small manufacturer of finished wood cabinet doors to become interested in exporting. The firm's sales were stagnant at the time. Now the firm is exporting about $1 million of product to Norway.

Besides outreach and direct counseling, SCORE/ACE foreign trade counselors also sponsor or co-sponsor export training seminars and conferences. For example, SBA - SCORE/ACE recently co-sponsored a conference entitled, "Small Business Can Export Profitably" which had a new twist to it - one that had not been tried before in Region X. It was a SCORE volunteer's idea to bring together commercial representatives from Pacific Rim country consulates to tell the attending small business persons what products and services their country imports. Afterwards, the small business persons visited the booths of the countries importing their type of products or services for more detailed marketing information, including overseas contacts.

In the afternoon, the small business attendees heard export talks from ITA, the State Department of Commerce and Economic Development, an international banker, the SBA, an expert in trade shows and exhibits, etc. This conference approach was very successful. Future seminars of this type will feature foreign commercial attache representatives from other regions of the world. We will consider Latin America, Middle East nations, Common Market countries, and any place in the world where our business persons can export their products.

SMALL BUSINESS INSTITUTE (SBI) ACTIVITY

The Small Business Institute (SBI) program is an important Management Assistance program of our Agency. Through the SBI, senior and graduate students of leading schools of business provide on-site management counseling to small business owners. The students, who are guided by a faculty member and an SBA Management Assistance Officer, receive academic credit for their participation in the Institute.

SBA Region X through its District Offices is encouraging the SBI participating universities and colleges to include case studies in international trade. For example, the Oregon State University, Corvallis, Oregon, recently completed eight small business case studies in which international business majors served as consultants to the Corvallis area firms and developed recommendations for their international marketing objectives. These firms were very pleased with the results.

The names of firms that could use the SBI service in the Corvallis area were solicited and recieved from the Portland District Office of International Trade Administration, U. S. Department of Commerce. A cooperative effort of monitoring and counseling by SBA and ITA specialists from their respective Portland District Offices was an important factor in the successful results of these consultations. Everyone wins. The small businesses received indepth consultation, research and a final report at no cost to them. Successful implementation of the recommendations should result in increased U. S. exports and perhaps increased employment. The students, our future potential entrepreneurs, acquire hands-on business experience by participating in the SBI program. And, finally, government and private sector gain by this cooperative leverage of assistance.

TRADE SHOW PARTICIPATION

On July 1, 1982, SBA and the National Oceanic and Atmospheric Administration (NOAA) signed a cooperative agreement to encourage greater small business participation in NOAA sponsored and managed overseas trade promotion events. The first such event was the U. S. Seafood Sales Exhibit at the SIAL World Food Fair in Paris, France, November 15-20, 1982. For this exhibition, NOAA allotted two exhibit spaces to SBA. SBA provided NOAA with funds to cover the participation fee for two SBA-selected small seafood processors or wholesalers. The selected firm had to pay its own travel and per diem expenses. I am pleased to say that a woman-owned firm from Region X was one of the two firms in the nation selected. Overseas sales were made by this firm at the fair. These were their first export sales.

During March 22-24, 1983 a highly successful "Pacific Northwest Trade Conference and Exposition" occurred in Spokane, Washington. The U. S. Small Business Administration and the Service Corps of Retired Executives (SCORE) were two of the ten hosting organizations, including the U. S. Department of Commerce that co-sponsored this event. The State Chairmen were each of the six Governors of the Pacific Northwest States.

The three day event drew over 650 conference participants and entrepreneurs from throughout the northwestern United States to discuss the opportunities and challenges facing those who are interested in joining the U. S. export market. More than 8,000 visitors and trade delegates from 35 foreign countries attended the exposition and sampled or viewed the products and services of 255 exhibitors from Alaska, Idaho, Montana, Oregon, Washington and Wyoming.

It was my pleasure and privilege to be an active member of the board of directors for this event. It was my opinion as well as that of the conference coordinator that much of the success of the exposition was due to the efforts of SCORE volunteers from chapters throughout the Northwest who played a key role in interesting firms to exhibit their products during the event.

A minimum of $25 million in sales were generated from buyers from such countries as India, Venezuela, Taiwan, Japan, France and Germany. Anticipated repeat overseas business during the next twelve to eighteen months is estimated at $100 million to $150 million in sales as a result of this trade show.

FINANCIAL ASSISTANCE PROGRAM

Our financial assistance program for exporters has been somewhat slow to take off in our region. However, during the past twelve months we have corresponded with approximately 1,000 bank branches and followed up with meetings with each of the major banks to promote and inform them of our financial assistance programs for exporters, including the Export Revolving Line of Credit program and to motivate them to participate in it. Also, we have been promoting and informing the business community and other international trade organizations of our international trade assistance program via the various media, seminars, mailings and personal contacts. Now, it appears that our outreach efforts are beginning to pay off. Several international bankers have recently contacted our regional and district offices for the purpose of clearly understanding our procedures/requirements in processing export related loan applications for an SBA guarantee. In the past international bankers have never dealt with SBA because then, we did not have an export finance assistance program. We are delighted to see these expressions of interest by the international bankers in Region X.

Recently, our Portland District Office approved a loan guarantee for $500,000 to a woman owned lumber mill. Although the firm had solid orders from Japan for metric cut lumber, it was unable to borrow from any bank the necessary working capital.

SBA's guarantee of 90% of the loan with a participating bank finally overcame this financial obstacle. The mill is located in a high-unemployment county in Oregon. It is projected that these export orders will necessitate the company to eventually add a second and third shift operation. Employment for the firms and its log supplier could increase by 250 persons.

Another three export related loans were recently made: two in Idaho and one in Washington State.

CHANGING TRADE ENVIRONMENT

There are indications that the world economy is beginning to show signs of recovery and with it will come new opportunities for small business exports. As Export Trading Companies (ETC) become certified under the provisions of the ETC Act passed last year, small businesses will have additional marketing vehicles through which their products can be introduced overseas.

According to the 1983 "World Economic Outlook" report prepared and published on June 21, 1983, by the International Monetary Fund (IMF), the prospects for 1983 and 1984 are for a modest but significant improvement in the international economic climate. Although stating that declining inflation and interest rates appear to have laid the basis for a return of confidence and a more sustainable growth of output, the report cautions that great care will be needed if the recovery is to be sustained and extended.

In the short term the recent drop in oil prices will have a beneficial impact on the world economy and ease financial pressures on non-oil developing countries, but it will increase economic and financial problems in a number of the oil exporting countries.

The IMF report warns that close international cooperation will be vitally needed for the purpose of achieving some related objectives: to resist protectionist pressures, foster greater stability of exchange rates, and improve the difficult debt situation facing a number of developing nations. The challenge now facing the governments of industrial countries is to restore economic growth without threatening the progress achieved in reducing inflation.

The strong U.S. dollar has caused difficulties for U.S. firms to be price competitive in the world market. Lack of adequate foreign exchange in hard currencies by developing nations to pay for their imports curtails world trade growth. However, in a recent seminar, recognized trade experts stated that barter and countertrade practices will be associated with 50% of all world trade by the next decade.

Barter and countertrade could possibly be a partial solution to the foreign exchange problem.

International trade experts tell us that the Pacific Rim countries are very important to our Pacific Northwest and to the U.S. in trade exchange activities in the foreseeable future, certainly beyond the year 2000.

Positive Government actions should take place in our public schools' curriculum to encourage the inclusion of subject matters that educate and prepare our future entrepreneurs for domestic and international trade endeavors. These efforts should occur in the lowest grade level practical. For example, I am not aware of Japanese, Chinese or other Pacific Rim language courses being offered in our grade and high schools in the Pacific Northwest Region. Emphasis on the importance of international trade could be included in existing appropriate courses.

CONCLUSION

SBA takes the mandate of the Export Expansion Act provisions of Public Law 96-481 very seriously, Mr. Chairman. We, in Region X, will give our International Trade Program the visibility and emphasis that the Congress and the President have requested.

We will do it in partnership with other federal, state and local public agencies, and with the private sector. Increasing small business exports means increasing small business jobs, a stronger small business sector, and a stronger United States.

Mr. Chairman, this concludes my prepared statement. I shall be happy to answer any questions you may have.

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF
PETER TERPELUK, JR.,
ACTING DEPUTY ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

AUGUST 19, 1982

DEAR MR. CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE:

I am pleased to appear before you today to discuss the Small Business Administration's International Trade Program and particularly the steps that the Agency has taken and plans to take in regard to implementing the "Small Business Export Expansion Act" provisions of Public Law 96-481.

I will briefly provide an overview of SBA's philosophy and approach to international trade, identify what steps the Agency has taken to implement the export provisions of Public Law 96-481 and outline additional measures which we will take in the coming months to ensure that the intentions of the legislation and the desires of the President in this area are carried out efficiently and effectively.

I would first like to commend you, Mr. Chairman, for the interest that you and the members of this Committee have shown in encouraging more small businesses to enter the field of exporting.

PHILOSOPHY AND APPROACH

Export markets offer great potential for the small business community in terms of additional profits, increased employment, and as a means to offset domestic marketing difficulties. Although three out of four firms that export have less than 100 employees, a significant number of small business manufacturers do not recognize that they have export potential. By Department of Commerce estimates, there are approximately 20,000 additional small firms that could export successfully if they had access to the necessary market information and assistance.

The Survey of Findings on Obstacles to Exporting Faced by Small Businesses which was released by the Senate Committee on Small Business today, based upon this Subcommittee's research, points out many of the real or perceived barriers to greater small business involvement in exporting. They closely parallel the findings of a similar survey which the National Federation of Independent Business did for SBA several years ago. Your study determined that the major obstacle was lack of information. In addition, the expenses occurred in exporting as well as other aspects of financing exports were also major inhibiting factors as expressed by over 53 percent of the respondents to the Subcommittee survey.

Helping small businesses address these very problems is the major focus of the Agency's International Trade Program.

While the Department of Commerce is the Federal Agency charged with implementing the international trade objectives of the nation, we feel our basic role is to help the Department of Commerce and others multiply their services to the small business community. By putting small businesses in touch with private sector international trade service providers, we have no doubt that the export base of the United States can be significantly broadened and a positive effect felt on the nation's balance of trade and balance of payments positions.

This, we believe, is the major thrust behind the export provisions of Public Law 96-481 and of President Reagan's directive to us and the Department of Commerce "... to emphasize programs that encourage export promotion among small business...". It is precisely for this reason that Administrator Sanders has included the Office of International Trade within the operating responsibilities of the Associate Deputy Administrator for Special Programs. This was done to increase the emphasis and heighten the visibility of our International Trade Program within the Agency and the export community.

Our Regional Administrators and District Directors have been directed to include specific international trade objectives in their Action Plans for FY 1983. As Regional Administrator for Region III, I have instructed my District Directors in Pennsylvania, Maryland and Virginia where there are the largest concentrations of potential small manufacturer exporters to pay particular attention to this area.

I myself have had meetings with various federal and state officials and representatives of international trade organizations in Pennsylvania, Delaware and New Jersey to see what can be done to revitalize the Port of Philadelphia so it can better serve the small business export community in the area.

Other Regional Administrators, District Directors and SBA field personnel have met with bankers, federal and state officials, local world trade councils and others to see how we can help them develop an integrated local program of export assistance which meets local needs and maximizes local private sector involvement.

In your home state of Minnesota, Mr. Chairman, I might add that our Acting District Director, Mel Aanerud, has made significant strides to bring SBA into the state's international trade network. Firms within our loan portfolio and Procurement Automated Source System are being invited to various export training programs in order to learn more about the techniques and procedures of international trade. Four such programs are planned for the next four months in Minnesota. SBA is a member of a state international trade organization and took an active role in World Trade Week activities last May.

I would like now to comment on specific actions that the Agency has taken and will take in the coming months regarding the "Small Business Export Expansion Act" provisions of Public Law 96-481.

EXPORT FINANCING

As your survey suggests, there is a great need for small business exporters to acquire the pre-export financing they need in order to obtain the raw materials, inventory and labor necessary to process an export order they receive from an interested overseas buyer.

On December 3, 1981, the Agency published for public comment in the Federal Register proposed rules and regulations which would establish a new guarantee Export Revolving Line of Credit (ERLC) loan program for small business exporters as outlined in Section 112 of the law. After receiving and evaluating the suggestions from small businesses, bankers and international trade organizations, we published the final rules for the program in the June 3, 1982 Federal Register. I might add that there was considerable support for the program.

The primary purpose of the ERLC program is as the legislation states - "... to enable small business concerns to develop foreign markets and for pre-export financing...".

Under the program, a qualified small business that has been in business for one year (though not necessarily in export) can obtain from the SBA through his or her bank, if the bank determines it to be necessary, a guarantee by the SBA of up to $500,000 (or 90 percent of the amount) for a revolving line of credit to help finance the firm's export working capital needs. The line of credit can be up to 18 months in term. Once the line is paid off at the end of the note, the small business can reapply through his or her bank for another revolving line of credit.

Because of the revolving feature of the line of credit, much paperwork is reduced since the business and the bank need not receive authorization to make disbursements each time an advance is made under the agreed terms of the ERLC.

In June we issued the necessary guidance to our field staff and we began a series of meetings with bankers, world trade clubs and Federal and state officials to explain our program. We are encouraged by the initial interest in the program and feel that there is significant receptivity by the private banking community, the key to the program's eventual success.

On July 28, 1982, a feature cover article in the Commerce Department's biweekly magazine Business America which reaches thousands of small business subscribers outlined our new program. A news release issued by SBA announcing the program was carried in many newspapers and magazines, including among others Nations Business and the Kiplinger Newsletter and has brought many inquiries to our field offices about the program.

This past week the Administrator wrote a personal letter to the major banks which participate in our regular loan programs as well as to banks which the Export-Import Bank suggested further advising them individually of the ERLC program. As a result of our Minneapolis office's briefings of major banks in your home state, Mr. Chairman, I understand some applications are about to be submitted to us for guaranteed revolving lines of credit.

CENTRAL OFFICE AND FIELD DELIVERY

As I previously pointed out, the Office of International Trade has been placed under the direction of the Associate Deputy Administrator for Special Programs in order to increase its visibility and assure that the program receives the emphasis it should within our entire organization. In the coming weeks, now that our overall organization is structured to best serve our small business constituency, we will complete our staffing of that Office. In addition the program, I can assure you, Mr. Chairman, will receive adequate budgetary resources to carry out its functions efficiently and effectively.

The Administrator has instructed each Regional Administrator to hire, from the outside if necessary, a fully qualified Regional Export Development Specialist as mandated in the law. We will have the ten field specialists desired on board by October 1, 1982. Currently we have six specialists and we are in the process of recruiting the other four. Despite our decreasing personnel ceilings, Administrator Sanders feels that this is an area which needs such support. These persons will be on the Regional Administrator's personal staff. They will be charged with accomplishing the specific objectives of the law.

On August 3, 1982 the Administrator approved the issuance of a specific International Trade Program Standard Operating Procedure Manual which clearly outlines what he desires. He has also instructed each Agency program head to revise their operating manuals to reflect the provisions of SOP 90-65 as they relate to their individual areas.

SBA STAFF EXPORT TRAINING

During the period of August through November 1980, 129 Management Assistance Officers and loan specialists (who have been specifically designated international trade responsibilities in the District and Regional Offices), SCORE volunteers with export expertise, and other Agency personnel, attended a series of five one-week export training programs. At these programs, representatives of various Federal agencies, international trade organizations, bankers, freight forwarders and others explained the services that they can provide to small exporters.

Such training is vitally important if our staff people in the field are to understand exporting and advise small business of what local private sector programs of assistance and export services are available to help them. A set of six twenty minute audio-visual cassettes were produced to highlight the major export procedures and processes covered during these meetings. Copies of the program, which actually revolves around a small exporter (who appeared on the tapes), together with an accompanying workbook, have been distributed to all our Regional and District Offices for use in continued Agency personnel as well as small business training programs. Several Commerce offices and other organizations have borrowed these tapes for their own uses as they find them of significant value.

In January 1981 our Regional Export Development Specialists attended another one week orientation program in Washington at which other federal departments and agencies explained their programs. I might add, Mr. Chairman, that staff members from this Committee also briefed our people. During the first quarter of FY 1983 we intend to have another such meeting in Washington to further outline our program. I hope that members of your staff can participate again.

SCORE/ACE INVOLVEMENT

SCORE, the Service Corps of Retired Executives, and ACE, Active Corps of Executives is, as you know, a volunteer group which we call upon to assist small business. Within this organization are several hundred individuals experienced in international trade who counsel small businesses in this field. For the past several years, there has been a National SCORE/ACE Foreign International Trade Coordinator who is assigned to the National SCORE/ACE Office and works closely with the Office of International Trade to increase the capacity of SCORE/ACE to assist potential and current small exporters. They have developed an "Export Guide" for their counselors' use and during the coming year will develop and distribute a directory of their volunteers with export-import expertise so that the volunteers can contact each other to seek specific answers to export problems their clients have.

In addition, they will undertake a recruitment program to obtain more internationally experienced counselors and will conduct several pilot counseling projects aimed at helping selected manufacturer loan holders, 8(a) firms, and PASS registrants to develop and implement an export plan for their firms.

One current example of continuing SCORE export activity is the initial screening of several hundred small firms in the Chicago area - at the request of the Commerce Department - to ascertain their export interest and capabilities. These firms are then referred to Commerce or to appropriate local organizations for more indepth assistance.

In Maine, SCORE developed a list of private sector translators who can assist small exporters. Previously there had been no such list.

In South Dakota, a SCORE volunteer worked many months to help a small manufacturer put together a $120 million export and investment joint venture in the Caribbean.

In Idaho, our Regional SCORE/ACE International Trade Coordinator is the Chairman of the Governor's Export Council.

SBDC ACTIVITY

As you are aware, Mr. Chairman and Members of this Subcommittee, the Small Business Development Center Program is a major Management Assistance program of the Agency. We are currently funding International Trade Centers within these consortia to provide more indepth export assistance through the university and local private sectors. Programs are underway in Alabama, Georgia, and Wisconsin. We anticipate they will be expanded during FY 1983 and indications are that more such SBDC International Trade Centers will probably be established as requests are being received from more SBDC's to provide this assistance. We intend to contract with the University of Georgia to provide export market information by product area on various countries which will not only indicate current United States exports but also import data from other countries and projected demand.

EXPORT RESOURCE DATA BASE

As a part of their Regional Action Plans for FY 1983, our field offices are developing local Export Resource Data Bases of organizations and programs which can provide export services to small businesses. Several thousand such sources have been sent in to the Office of International Trade where they are being consolidated. This information based upon 40 key export service areas, will be converted to a word processing based program which will enable the field to identify not only local but regional and national sources of export help to small business by a simple access system. (See Attachment A). The system will be updated every six months. We will also be able to track what help small businesses received from the organizations and firms listed in the Export Resource Data Base.

OUTREACH

In line with the Administrator's priority of rendering every possible Agency program of assistance to all its clients regardless of source of entry, District Offices are going to identify which clients in all our programs should be aggressively contacted and encouraged to consider exporting when appropriate. Initial industries will be selected from the Commerce Department's Targeted Industry Program.

SMALL BUSINESS EXPORT TRAINING

During early FY 1983, we intend to undertake an active outreach program to get the message to small businesses that they can be successful in exporting and private and public sector help is available to them. A mixed media approach will be utilized in a number of cities which have a high concentration of small manufacturers to encourage them to contact SBA to receive a brochure entitled "Is Exporting for You?" It outlines what areas a small business should investigate if it is to undertake profitable export operations. After returning a self analysis questionnaire of their export needs, we will access the export resource data base and refer such businesses to local sources of more indepth export assistance.

In addition, the Office of International Trade through continued involvement with the United States Chamber of Commerce, our National Advisory Council Committee on International Trade, and others will seek input from small businesses on various international trade issues of concern to them.

As your report points out, more information on the "how to's" of export is needed by small business. We will continue our program of cosponsored small business group training in export techniques and procedures. We are, in addition, working with the Control Data Corporation (CDC) to develop a computer-assisted learning module on exporting which individual small business owner-managers can utilize through CDC learning centers at no cost to them.

INTERGOVERNMENTAL COOPERATION

We are working very closely with our sister government agencies and departments.

On July 1, Administrator Sanders signed three Interagency Agreements. One is with the International Trade Administration which outlines ways in which our respective field staffs can cooperate more closely to serve the current or prospective small business export community without unnecessary duplication of effort.

The other two involve the National Marine Fisheries Service of NOAA and the Foreign Agricultural Service. Under these agreements, the SBA will pay the costs of the participation fees by small businesses in overseas trade promotion events of these Departments. While we will not pay the per diem or travel expenses attendant with such events, we feel that this will encourage more small businesses to become involved in overseas trade. A copy of the Agreements is attached.

EXPORT TRADING COMPANIES

In closing, I would like to express the Administrator's strong belief that export trading companies can be a major vehicle by which small businesses can enter the export market. According to FY 1983 FED figures there were 3,702 bank holding companies with assets of almost $1.3 trillion in the U.S. They have 28,044 branch offices around the country. At the Commerce Department's request, and if ETC legislation about to go to conference becomes law, we will work with them to implement the legislation. This will include cosponsoring with them a series of Export Trading Company seminars to explain the Export Trading Company concept to the public.

Let me assure you, Mr. Chairman and members of this Subcommittee, that we take the mandate of Public Law 96-481 very seriously. We will give our International Trade Program the visibility and emphasis that this Subcommittee and the President have requested.

We will do it in partnership with the other Federal Agencies and primarily through the private sector because more small business exports means more small business jobs, a stronger small business community and a stronger America. The small business marketplace is not just the United States, it is the world.

Mr. Chairman, this concludes my prepared statement. I shall be happy to answer any questions this Subcommittee may have.

ATTACHMENT A

SBA EXPORT DATA BASE/
EXPORT INFORMATION CODES

A. MARKET RESEARCH

1. Identify Foreign Markets (Products)
2. Identify Overseas Customers (Leads)
3. Export Management Company/Export Trading Company

B. LENDING

4. Banks with International Departments
5. SBA Lenders
6. SBICs/MESBICs

C. TRAINING PROGRAMS

7.

D. GOVERNMENT

Federal

8. U.S. Department of Commerce
9. U.S. Department of State
10. Agency for International Development
11. Overseas Private Investment Corporation
12. Export-Import Bank
13. U.S. Department of Agriculture
14. U.S. Trade Representative
15. U.S. Department of Treasury
16. Other

State

17. Department of Commerce
18. Overseas Offices

Local

19.

E. OTHER

20. Port Authorities/Foreign Trade Zones
21. Small Business/Trade Associations
22. World Trade Clubs/U.S. Chambers of Commerce
23. Foreign Embassies in the U.S./Chambers of Commerce Overseas
24. Shipping/Documentation/Marine Insurance/Packaging
25. Overseas Investment/Licensing Agreements
26. Foreign Credit Insurance Association
27. Credit Information on Overseas Buyers
28. Tax Incentives/Attorneys
29. Importing
30. International Financial Institutions
31. Translation Services
32. Advertising/Promotion
33. Overseas Project Planning/Foreign Government Procurement
34. Foreign Regulations
35. Directories/Publications
36. Financial Consultants/Foreign Exchange

AGREEMENT BETWEEN
UNITED STATES DEPARTMENT OF AGRICULTURE
AND
THE SMALL BUSINESS ADMINISTRATION

1. GENERAL:

The Foreign Agricultural Service, United States Department of Agriculture and the Small Business Administration (SBA) agree to cooperate in the establishment and implementation of programs to assist small and minority United States export firms engaged in business to export United States agricultural products, including brokers, producers, dealers, distributors and jobbers. Firms eligible to receive assistance under this Agreement are as defined by applicable SBA size standards (13 CFR part 121).

2. INTENT:

The intent of this Agreement is to enable FAS/USDA to respond to its commitment of including in its market development program small and minority business enterprise export firms. FAS/USDA's obligation is to improve utilization of United States agricultural resources through creation of export markets for these firms. This Agreement will help broaden the base of exports, by providing new entrants to the export markets and by offering these firms opportunities to generate export sales. This Agreement also serves the interest of SBA by promoting access of small business in the United States to foreign markets for agricultural products.

3. LIAISON:

FAS/USDA will work with the office of the Administrator of SBA in implementation of this program. The FAS/USDA liaison will be the Assistant Administrator, Foreign Market Development, FAS/USDA or his designee. The SBA liaison will be the Special Assistant to the Administrator for International Trade or his designee.

4. THE FAS EXPORT PROMOTION PROGRAM:

FAS sponsors, recruits exhibitors, manages and conducts overseas exhibits at international trade fairs and also participates in a number of smaller regional exhibits overseas as well as in special activities at Agricultural Trade Offices. FAS also participates in the United States with the following regional state organizations: Southern United States Trade Association (SUSTA), Eastern United States Agricultural and Food Export Council, Inc. (EUSAFEC), Mid-America International Agri-Trade Council (MIATCO) and Western U.S. Agricultural Trade Association (WUSATA). All of these activities are designed to expand the export of United States agricultural and food products. FAS/USDA will keep SBA inform of its export programs through routine mailings and by direct contact.

5. EXHIBIT SPACE:

FAS/USDA agrees to reserve space at each activity for small and minority export business firms, in any and all of its overseas promotional programs and those conducted by state regional organizations in the United States designed to promote the export of United States agricultural products. The amount of space necessary at each activity is to be determined by FAS/USDA and SBA.

6. THE SELECTION OF SMALL AND MINORITY AGRICULTURAL FOOD PRODUCT INDUSTRY PARTICIPANTS:

The selection of small and minority food product industry participants will be the sole responsibility of the Export Promotion Division of FAS/USDA. The SBA agrees to assist in the selection of and facilitate the participation of a mutually agreed number of small and minority export business firms in the FAS/USDA export promotion program. SBA may offer suggestions or assistance by submitting a list of participants for FAS/USDA's consideration. The ultimate knowledge of small and minority participant's background and qualifications can best be judged by FAS/USDA due to its unique role in its relationships to the state departments of agriculture and regional trade associations of the agricultural industry of the United States and the trade offices around the world. SBA reserves the right to veto any selected participants.

7. FUNDING:

SBA will utilize official form 1081 to provide FAS with funds to cover the participation and shipping fees (not to exceed $1,000) for each participant selected by FAS and SBA in each activity. Additional costs (for travel, per diem, and miscellaneous items) will be the sole responsibility of each participant.

8. REFUNDS:

Should any event covered by this Agreement for which SBA has made payment(s) to FAS on behalf of a participant(s) be cancelled, such funds will be applied to future events undertaken by FAS and SBA.

9. CONDITIONS OF PARTICIPATION:

The individual business firm sponsored by SBA will be fully responsible for abiding by all FAS rules and regulations governing participation in any overseas trade show or domestic trade activity. SBA and FAS will not be liable for failure by any selected business firm to abide by these rules.

10. UNSCHEDULED OR OTHER EXPORT ACTIVITIES:

FAS/USDA will work with SBA to develop additional export promotional events including specialized sales teams and other activities to promote the export of United States agricultural products. Such specialized events will be individually reviewed and approved by the Director, Export Promotion Division, FAS/USDA and appropriate officials from SBA.

11. DURATION:

This Agreement will be in effect until September 30, 1984, and may be renegotiated or extended beyond that date. Any extension of this Agreement beyond September 30, 1982, shall be evidenced by a document signed by appropriate officials of FAS/USDA and SBA.

Signed:	Signed:
	James C Sanders
Richard A. Smith Administrator Foreign Agricultural Service United States Department of Agriculture	James C. Sanders Administrator United States Small Business Administration
Date: 4-1-82	Date: 7/1/82

MEMORANDUM OF UNDERSTANDING
Between The
International Trade Administration
And The
Small Business Administration
On Cooperation In Support Of
International Trade Development

A. The statutory obligations of the Department of Commerce are to foster, promote and develop the foreign and domestic commerce of the United States. The Small Business Administration is required by the Small Business Act of 1953 to aid, counsel, assist and protect the interests of small business concerns.

B. Functional responsibility to promote the international trade of the United States and to assist U. S. business in its export operations domestically and abroad is vested in the International Trade Administration (ITA) of the Department of Commerce. The principal objective of ITA is to increase and promote U.S. exports, thus contributing to the Nation's economic growth and helping to achieve our national export expansion goals. ITA advances this purpose by working with other Government agencies and international organizations to create a climate in which international trade and investment can flourish, and by working to make U.S. industry more export conscious.

C. By legislation, the Small Business Administration (SBA) is required to apply portions of its resources to promote export opportunities for small business goods and services. In cooperation with ITA, SBA makes available to small businesses complete export information and encourages small business participation in trade fairs, shows and missions. To this end, SBA counsels small businesses on international marketing to acquaint them with problems and opportunities implicit in foreign trade and to prepare them to benefit from more specific programs and intensive assistance available from ITA's District Offices and private sector service organizations in the international field.

D. Over the years and particularly under the Commerce/SBA Agreement of December 1976, a number of cooperative activities were developed in Washington between SBA's Office of International Trade and ITA's Washington Office, particularly the U.S. Commercial Service (USCS), and in the field between SBA's Field Offices and the District Offices of the USCS.

E. The purpose of this Agreement is to provide for an increase in such cooperation between the two agencies to improve the delivery of U.S. Government small business exporter programs while avoiding duplication of effort. The initiatives shown below outline means for efficient cooperation between ITA and SBA, as well as the responsibilities of each organization under this Agreement.

F. For ITA, the Deputy Assistant Secretary for the Commercial Services shall have this coordination responsibility. For SBA, the Office of International Trade through the Special Assistant to the Administrator shall have the coordination responsibilities for all activities performed jointly with ITA.

I. ITA Initiatives

The International Trade Administration will:

1. Provide periodically, from ITA District Offices to corresponding SBA Offices in the field, advance schedules of Commerce export promotion events suitable for participation by small and medium-sized businesses.
2. Provide information and promotional literature on pertinent programs and activities of ITA.
3. Provide qualified personnel from Washington or the District Offices to participate in SBA co-sponsored conferences, seminars, and other export development activities; advise SBA about suitable ITA-sponsored seminars and conferences featuring information on exporting; and encourage the attendance of small businesses at such events.
4. Participate in training of SBA Loan Officers to assist them in evaluating the viability of export development activites for which SBA loans are requested, and provide personal consultation assistance upon request.
5. Provide coverage of SBA responsibilities and services in ITA's business counseling sessions and literature.
6. Refer small business contacts to appropriate SBA Field Offices for participation in SBA programs.
7. Through ITA's "multiplier program," make local banks aware of SBA programs.

8. Provide ITA films and other audiovisual materials for use by SBA Field Offices.

9. Periodically brief SBA personnel in Washington and in the field on ITA programs and activities.

10. Notify SBA Field Offices of Foreign Buyers and Foreign Commercial Service Officer visits.

11. Notify SBA of any joint venture or licensing opportunities suitable for small business coming to the attention of ITA.

12. Consistent with applicable legal requirements as to the confidential treatment of information, provide to SBA selected international trade-related statistical data compiled by the Department or data to which ITA otherwise has access.

II. SBA Initiatives

The U.S. Small Business Administration will:

1. Provide ITA District Offices with the names of companies granted SBA assistance for export development.

2. Provide periodically, from SBA Field Offices to corresponding ITA District Offices, advance schedules of SBA events appropriate for ITA participation.

3. Provide qualified personnel to participate in ITA seminars, conferences, and other appropriate export development activities; advise ITA about suitable SBA-sponsored seminars and conferences featuring information on exporting; and encourage the attendance of small businesses at such events.

4. Provide to appropriate ITA personnel explanatory information and promotional literature on SBA programs and activities pertinent to export development.

5. Provide training and guidance materials to pertinent ITA personnel sufficient to allow them to make preliminary evaluations of the potential suitability of clients for SBA assistance.

6. Provide coverage of ITA programs and services in appropriate loan counseling sessions and SBA co-sponsored training programs and literature.

7. Provide SBA films and audiovisual materials for use by ITA and its District Offices.

8. Periodically brief ITA personnel on SBA programs and international trade initiatives.

9. Provide selected SBA personnel periodic training on ITA programs.

10. Assist in identifying export-capable firms and recommend appropriate small firms to be included in targeted industry sector programs.

11. Assist in identification of small business exporters or potential exporters for participation in appropriate ITA Foreign Buyer events and overseas trade promotion fairs, exhibitions, missions, and catalog events.

12. Consistent with applicable legal requirements as to the confidential treatment of information, provide to ITA small business statistical data compiled by SBA or data to which SBA otherwise has access.

III. Joint ITA/SBA Initiatives

The International Trade Administration and the Small Business Administration will jointly:

1. Plan and implement export development activities for the small business community at the local level.

2. Plan visits by USCS District Office and SBA Field Office personnel, together, to local banks to inform them of their important role in government programs to promote export development.

3. Appoint a specific official in each organization, at headquarters and in each Field or District Office, to provide the coordination, monitoring, and communication link for all projects and activities pertinent to this Memorandum of Understanding.

4. Develop, where appropriate and within resource constraints, audiovisual materials, training aids, informational publications and promotional materials.

5. Provide appropriate interchange of information and direct access to information between ITA's automated data system and SBA's Procurement Automated Source System (PASS), as well as between appropriate future SBA -- ITA data collection and retrieval collection systems.

Signed:	Signed:
Donald V. Earle for	James Sanders
Lionel H. Olmer Under Secretary for International Trade U.S. Department of Commerce	James C. Sanders Administrator U. S. Small Business Administration
Date: 7/1/82	Date: 7/1/82

MEMORANDUM OF UNDERSTANDING

The Small Business Administration

and

The National Oceanic and Atmospheric Administration

1. GENERAL:

The National Oceanic and Atmospheric Administration (NOAA) and the Small Business Administration (SBA) agree to cooperate in the establishment and implementation of programs to assist small or disadvantaged United States fishery firms to export United States fish and shellfish products. Firms eligible to receive assistance under this Memorandum of Understanding are as defined by applicable SBA size standards (13 CFR Part 121).

2. INTENT:

The intent of this agreement is to enable NOAA to respond to its Congressionally mandated obligation to increase the utilization of United States fishery resources through creation of export markets. The program will also help broaden the base of exporters, by providing new entrants to the export market and by offering these firms opportunities to generate export sales. Increased exports also enable the United States to reduce the $2 billion trade deficit in fishery products. This agreement also serves the interest of the SBA, by promoting the access of small businesses in the United States to foreign markets for fish and shellfish.

3. LIAISON:

The National Marine Fisheries Service (NMFS) of NOAA will work with the Office of the Administrator (OA) of the SBA in the implementation of this program. The NMFS liaison will be the Assistant Administrator for Fisheries or his designee. The SBA liaison will be the Special Assistant to the Administrator for International Trade or his designee.

4. THE NOAA EXPORT PROMOTION PROGRAM:

NOAA sponsors, recruits, manages, and leads several U.S. Seafood Sales Missions overseas and sponsors and manages a U.S. Seafood Sales Exhibit at either the ANUGA World Food Market in Cologne, West Germany or at the SIAL World Food Fair in Paris, France. The ANUGA and SIAL Food Shows are held in alternate years. NOAA also participates in a number of smaller, regional food shows overseas. NOAA also organizes and/or sponsors export seminars in the United States.

5. NOAA/SBA COOPERATION:

NOAA agrees to reserve space, the number to be agreed on by NOAA and SBA, for small or disadvantaged business firms, in any or all of its overseas or domestic programs designed to promote the export of United States seafood products. The SBA, in turn, agrees to select and facilitate the participation of an agreed number of small or disadvantaged business firms in NOAA's export programs.

6. SELECTION OF INDUSTRY PARTICIPANTS:

The selection of SBA's fishing industry participants will be the sole responsibililty of the SBA. NOAA may offer suggestions or assistance to the SBA, but the ultimate decision regarding actual participation will belong to SBA.

7. FUNDING:

SBA will provide NMFS with funds in advance to cover the Participation Fee for each SBA participant in each show or mission. In most instances this fee ranges from $500 to $1,000 for small, regional food shows and for most sales missions, and from $2,000 to $3,000 for the ANUGA or SIAL World Food Shows. NMFS will provide SBA with exact costs as soon as these costs can be determined.

SBA may elect to (1) make direct payments to NOAA for each event, or (2) require the selected firm to make a direct payment. Any additional payments (for travel and per diem, etc.) will be between SBA and the selected firm.

8. REFUNDS:

NMFS cannot return the Participation Fee after the deadline for refunds has passed, or if a "no refund" policy is in effect for a given event. If a program is cancelled by NMFS a full refund will be given to SBA.

. . CONDITIONS OF PARTICIPATION:

The individual business firm sponsored by SBA will be fully responsible for abiding by all NMFS rules and regulations governing participation in any overseas trade show or sales mission or domestic export seminar or show. SBA and NOAA will not be liable for failure to abide by these rules by any selected business firm.

10. UNSCHEDULED OR OTHER EXPORT ACTIVITIES:

NMFS will work with SBA to develop additional export promotion events, including specialized sales missions or events to promote the export of U.S. seafoods. Such specialized events will be individually reviewed and approved by appropriate officials of both agencies.

NMFS will keep SBA advised of any unscheduled export efforts, not outlined below (see Appendix). SBA will have the option to participate in any of these unscheduled programs, following notification. NMFS will keep SBA informed of its export events and programs through routine mailings and by direct contact.

11. DURATION:

This Memorandum of Understanding shall be in effect until September 30, 1984, and may be renegotiated or extended beyond that date. Any extension of the Memorandum of Understanding beyond September 30, 1984 shall be evidenced by a document signed by the appropriate officials of both the National Oceanic and Atmospheric Administration and the Small Business Administration.

Signed:

for John V. Byrne
Administrator
National Oceanic and Atmospheric
Administration

Date: 7/1/82

Signed:

James C Sanders

James C. Sanders
Administrator
U. S. Small Business
Administration

Date: 7/1/82

APPENDIX

THE NOAA PROPOSED EXPORT PROGRAM FOR FY-82 AND FY-83 1/

EVENT	AVAILABLE SPACES	ALLOTTED TO SBA
FY-82:		
U.S. Seafood Sales Exhibit, SIAL'82 World Food Show, Paris, France (November 15-20'82)	26	2
FY-83:		
U.S. Seafood Sales Mission to Europe-Tentative (2nd Quarter FY83)	5-15	2
U.S. Seafood Sales Mission to a Developing Market Area-Tentative (4th Quarter FY83)	5-15	2
U.S. Seafood Sales Exhibit, ANUGA'83, Cologne, West Germany (Oct. 1983)	26	3
		9

1/Contigent upon availability of funds and recruitment of minimum number of industry participants.

Mr. **Ireland**. Thank you very much, Mr. Balatero.

I will be brief. I have one or two quick questions.

The program under which you operate has been in effect about 2½ years now, about 30 months?

Mr. **Balatero**. Yes, sir.

Mr. **Ireland**. When was this region X set up in this program under the 1980 law started. When were you staffed?

Mr. **Balatero**. I think it came in effect when I took the position as Regional Export Development Specialist, in January 1981.

Mr. **Ireland**. We are talking about a fairly substantial amount of time.

My concern here is over this period of time. Having been interested for the same reasons that both Congressman Wyden and I have talked about in this particular area—and this is not just the Northwest—I am struck by the fact that we have been at this for 30 months and we are not touching many people. Small business is characterized by a large number of entities.

We know all the reasons for getting into the export business and the economic payoff for the communities involved. Yet I am struck by eight studies—I am talking about measurement of results—eight studies out here. We don't know whether they were translated into anything or not. Eight studies over a 30-month period of time. Some lists of names. One or two loans made under those programs. An outreach program with little or no numbers attached—how we have contacted people with the program that was set up to do that.

I am wondering if you would comment on the apparent indication that we are not touching very many people in a program that was theoretically designed to contact a lot of people, and also, what can be done about it?

Mr. **Balatero**. Yes, sir.

In retrospect, when I first entered this position in January 1981, I was the only person in the program for the region. So there was a number of months of orientation, training, and so forth within each of our district offices, for personnel who have never been involved in international trade. I think the chairman can appreciate the startup phase aspect of any new program.

We are looking for leverage. So we are seeking and trying to find the specialists within our region with international trade background and experience. This was a difficult and time-consuming task. Finding them, and then encouraging these ladies and gentlemen to join us as SCORE/ACE volunteers.

I feel quite pleased in that respect that we have about 27 participating volunteers. But it just didn't happen overnight. It did take a little time, seeking these highly specialized, difficult to find persons.

Mr. **Ireland**. On balance, I guess what I am thinking is this: If you are looking at what we are all trying to do, and I think that is very clear, is it working or isn't it working?

How would you judge it?

Mr. **Balatero**. I would judge it as working.

Mr. **Ireland**. On a 1-to-10 scale, is it a failure?

Mr. **Balatero**. We are still in a growth posture, trying to make the program mature. There are still some mechanics, if you will, administrative and so forth, that we must improve upon internally. For example, answering the question how do we identify the firms, this was one of the problems and tasks to which we had to address ourselves. We have had some success.

First, we used directories of various sorts—Manufacturers' Directories of Washington, of Oregon, and so forth. And called to encourage the presidents of those firms to be interested in receiving some further indepth counseling in exporting.

That was not very successful. We had 5 percent reception.

We started beginning to get substantial increase in success on these types of calls when we went to our computerized procurement automated source system [PASS]. In the PASS application form, it has a check box, are you exporting or interested in exporting?

Finally, getting those hundreds to a thousand names of firms and identification through our computer system, we found this to be a major improvement over the other approach.

Mr. **Ireland**. You think on balance you are making some progress?

Mr. **Balatero**. Yes, sir.

I am not saying we are there totally, 100 percent, as mature as, say, our regular 7A financial program. I am not talking about the revolving line of credit, but our regular term loan type of program or our regular management assistance program which have been around for a number of years.

Mr. **Ireland**. Mr. Wyden?

Mr. **Wyden**. Thank you, Mr. Chairman. There are a couple of areas I would like to focus on.

How many persons work full-time for the SBA in our region—Oregon, Washington, Idaho and Alaska—what is the total number of full-time employees working for the SBA?

Mr. **Balatero**. If you allow me an error here, give or take, about 170.

Mr. **Wyden**. You have 170 full-time SBA employees in our region. You are the only full-time employee of those 170 people who is involved specifically in promoting exports, is that correct?

Mr. **Balatero**. That is correct.

Mr. **Wyden**. The first thing I want to say, and I hope the message gets to the SBA, is that in your testimony you say international trade is going to be a priority for SBA. I don't see how in the world, when you have one person out of 170 people focusing on an area that is so important to our growth and our investment opportunities, our industrial base, you can say it is a priority.

I hope you will let them know back there I would like to see them restructure the way those 170 people are being used so we get an adequate number of people out there in the field full-time doing this work, because I don't think one full-time person out of 170 people amounts to anything like a priority. I think quite the contrary, I think when we get beyond all the gloss about how we are going to promote exports, it shows that there really isn't any muscle back there, and we are not making any specific commitments to do it.

Now, the second area that I would like to ask you a question about deals with the Export Expansion Act, the revolving line of credit area. When I talk to small business exporters, the main problem they tell me is getting access to capital, that you just have to get access to capital or everything else just really doesn't matter very much.

We know the Export-Import Bank historically hasn't focused on small business. Fortunately, a guy by the name of Andy Ireland came along and that is going to change a little bit. But the 96th Congress enacted this Export Expansion Act. As you know, that is a process where the Government guarantees bank loans to small business exporters. The Government backs up the bank loans. And it is my understanding that this program isn't working very well; we are not really seeing that become a good financing tool.

I would like to ask your thoughts on what the problems are. Are we having difficulty, for example, involving our financial institutions? What is the problem, what can Congress do, because it seems to me this is right at the heart of what we ought to be doing, is making capital available to small business exporters—the 96th Congress enacted this program so it has been on the books now a number of years. What can we do to turn this situation around and get some of these loans out?

Mr. BALATERO. Yes, thank you.

A brief response to your comments on the fact that I am the only full-time employee in the region—I agree, I would like to see more full-time employees in international trade. It is a very satisfying activity. I get tremendous satisfaction in trying to help small business—when they enter into that market and become successful, it just makes you feel good all over.

But Congress, in Public Law 96-481, only allocated 17 positions nationally. So 1 per region used up 10 of those positions and left 7. Our central office, due to other cutbacks in our head counts in other programs and so forth, reduced that 17 internally—this was internal——

Mr. WYDEN. Are you saying it is impossible to move any of your existing 170 full-time employees to export promotion?

Mr. BALATERO. No, I am not saying that it is impossible. These are judgments made by the District Director of each district and the Regional Administrator, who have the responsibility for all programs, that is weighing all the various programs and how they allocate resources. This is what takes place.

Mr. WYDEN. You let the district administrator know, and I will too, when he weighs all those programs and allocates those dollars, it is the opinion of this member, who sits on the committee to promote exports, that more of those 170 full-time employees ought to go into export promotion.

Everybody is getting cut back—that is the only way you get the deficit down. So I don't think Congress is going to be in the business of writing out more checks for more employees. Everybody is always inclined to say, give us more money and we will do it. There are 170 full-time employees there right now, and more of them ought to be on export promotion. I don't see how you can come in here and say it is a big priority when 1 out of 170 people is in business trying to do this.

Mr. BALATERO. Well, faced with that situation, it became necessary to go outward. I had to seek volunteers. I am quite proud of our volunteers. Some of them are retired international bankers, marketing folks that have sold their wares all over the world. They are very dedicated and receive no salary.

Mr. **Wyden**. The Portland SCORE program is terrific. I agree with you that is a key and share your judgment. Let's move on to the Export Expansion Act. Tell us what is the problem in getting out these Government-guaranteed loans that deal with the guts of what small business exporters need, which is access to capital. What is the problem there?

Mr. **Balatero**. I don't know if I could—if I am knowledgeable enough to try to explain it nationally, or even regionally. But I have certain opinions that I might share with you.

We have to deal with the international banker for our loans. The bank makes the loan. We guarantee it, up to 90 percent. Historically, before the enactment of the Export Expansion Act, which gave us this authority for a revolving line of credit loan guarantee program, SBA had never dealt with the international banker.

SBA has dealt with the commercial side of a bank's house, and we have discovered, as we got into this program, in any given bank the commercial banker of that same bank generally does not discuss matters with the international banker. At first view, it seems surprising.

Mr. **Wyden**. Our commercial banker doesn't discuss with the international banker?

Mr. **Balatero**. Exactly. The international banker has had no experience dealing with SBA and SBA's program and guarantees, and there is maybe a certain reluctance on their part—these are not quotes of bankers, I am just posing that—maybe in their mind they thought there might be with government, more paperwork, "Let's not be involved with this."

So we took it upon ourselves, because the program was not taking off, as you mentioned.

Mr. **Wyden**. Do you have any idea how many loans have been made under that program in the region since it began?

Mr. **Balatero**. Two.

Mr. **Wyden**. Two loans?

Mr. **Balatero**. We have four export loans—and these are very recent. I am thinking that through our outreach to the international banker on a 1-on-1 basis, we have been doing this: first, with literature and then back-up material, explaining through the mail our program; and then following up with individual meetings—myself and a loan officer—

> We go to the bankers in each district. Now I am receiving correspondence in which bankers are saying, "With the next opportunity, we plan to use your program."

It is slow, frustrating to me that it was so slow to take off. But I am seeing signs, not gigantic things, but just indicators from bankers showing their interest in our program.

So I think we are realizing the fruits of our labors from all this outreach to international bankers, by meeting with them, and trying to get them enthusiastic about the program. I think where we had success; we got a little smarter. We said why not bring into the same meeting with the international banker the commercial side of the house—the banker whom we have been dealing with for years and years, so they will have somebody inside that is supportive of us and saying, really the paperwork is not that insurmountable. It is not a bad thing.

So we have taken this approach. I think it has been really helpful.

Mr. **Wyden**. Thank you.

Mr. Chairman, I would just say—and I don't have any further questions for Mr. Balatero—that given the fact we have a program that really has such promise for small business, the Federal Government backing up loans to small business exporters, I think it is shameful to think there are only two loans made throughout the region.

I have to say I don't share Mr. Balatero's confidence that now everything is going to turn around overnight, Mr. Chairman.

I would just like to say I would very much like to work with you and the subcommittee to take a look at that particular program and see if there are not some changes that the subcommittee could recommend, to see if we could get this situation turned around, because there are an awful lot of small business exporters in my district who I think would like to take advantage of a situation where 90 percent of a bank loan could be backed up.

I would just like to say at this point I would very much like to work with you and our subcommittee on a bipartisan basis to see if we cannot turn this situation around.

Mr. **Ireland**. Well, I think you are on the right track without question. I would like to say I recently went to the principal office in downtown Washington and paid a visit, and I went through the litany of the list of what the SBA should have been doing over these years, and practically nothing has been done. We have received the first shipment from the principal office in Washington saying what they intend to do.

Mr. Wyden is on the right track. The law, in my opinion, hasn't been carried out. Within 180 days the law says that each appointee will have been through a training course with the Department of Commerce and other department agencies.

Did you go through that training course?

Mr. **Balatero**. No, sir.

Mr. **Ireland**. You have been there 30 months. In 180 days that was supposed to happen. SBA spent in the first year almost half a million dollars, over a million dollars the second year, and the track record is everywhere we go we hear that one or two loans have been made. There is a little directory of business. In the law, I am sure you have noticed, it is not only that there should be 17 people, 1 person in each region, but in each office there is supposed to be somebody trained. I have not heard you mention that anybody has been doing that.

Let me ask you this in further underlining what Mr. Wyden says.

What has your relationship been with OPIC?

Mr. **Balatero**. OPIC, I would say we have—I am aware of their programs, and I have met with their key people in Washington, D.C. I should correct an error. I said no to a question you asked, did I have a training session.

In my mind I was thinking of the training session they had for a week in the fall of 1980 before I came on board. It was for a hundred or so employees and SCORE people. Not being in the program at the time, I did not attend that, but there was a subsequent introduction and orientation type meeting in Washington, D.C. in January 1981, that was a couple of weeks after I took the position. So I did go to that.

Mr. IRELAND. My point is that OPIC is designed to handle a certain amount of activity in the foreign trade field and investment field, and has a mandate to do something to help small business. Now, they have been at this just exactly the same amount of time that SBA has, and they are scoring all over the Nation. Their program of outreach is aggressive. They have been cut in the number of employees. They have not added 17. It can be done. The SBA is not looking very good along this line.

I am not taking you to task, but you are part of the system. Unless everybody that is part of the system puts the shoulder to the wheel, it is not going to get done.

The OPIC operation is, one, I would think anyone that had anything to do with the SBA at all levels would want to know why they are successful, particularly in outreach, which SBA has to do in this case.

But, two, it is ongoing. It is something that if you are going to deal with a small businessman in this 10th region, and you don't know how OPIC operates or the opportunities for a small businessman to use OPIC in investing overseas, which is part of the activity as well, then you have not fulfilled the mandate to be able to communicate information about exporting to the people in your region. They have a right to expect under this law that we passed that you would know those things.

Let me ask you just one similar question about the Export-Import Bank. Do you know those people?

Mr. BALATERO. Yes, sir.

Mr. IRELAND. What kind of office arrangements do they have in your region?

Mr. BALATERO. When I have Exim type inquiries or questions or want to make interfaces——

Mr. IRELAND. I am not talking about the question when you go to talk to people.

How are you going to operate?

Mr. BALATERO. We deal with Washington, D.C. I have an Eximbank contact there.

Mr. IRELAND. Who is that?

Mr. BALATERO. Garret Boyd is the special assistant.

Also, the Foreign Credit Insurance Association, the office is located in San Francisco. There has been a change there in personnel. I don't know who the new person is at this time.

Mr. IRELAND. Do your banks in the area, are they familiar with Export-Import Bank and how to utilize their services?

Mr. BALATERO. I believe they are.

For example, the new law that was passed for Eximbank relative to small business loans, I requested and received a number of fact sheets from the Eximbank, and this I have submitted not only to our district offices, but to the banks.

Mr. **Ireland**. Have any banks in your region used it? Have they participated?

Mr. **Balatero**. They do. I don't know what volume.

Mr. **Ireland**. I think you will find they don't. If you look down the list of where Exim has done their business, I think you will find very, very few banks in America—no knock on your district, and no knock on those bankers.

Mr. **Balatero**. Boeing being their largest volume—they would deal substantially with Boeing type businesses.

Mr. **Ireland**. Boeing is not a small business.

Mr. **Balatero**. No, but it goes through a bank.

If you would allow me, within each district office, we do have a loan specialist and management assistance officer who have been designated international trade responsibilities. True, they are not spending 100 percent of their time in international trade, because of other duties. It goes back to their directions from their district director.

However, these are all in place in every district. In each district we have someone—two people actually, one from finance, and one from the management assistance division—representing the small business person who comes to the office to answer questions and go beyond that in international trade matters.

Mr. **Ireland**. Well, let me say we have taken a substantial amount of time on this matter, and I think essentially so. What Mr. Wyden says is a true summary of the situation. Two and a half years ago the Congress pointed out a great need. The Congress comes in for a lot of knocks on some things. Apparently they spotted the need before others in this area.

We set up a program, urged our one part of the Government that is supposed to be interested in small business to do something. The track record is not good. This is not a condemnation of you. It is all over the United States. Something isn't working. We have to find out why. You have been a great help along that line in helping us call attention to the problem.

As we hear from others, as we have at other hearings, we find from the private sector side that we are going to have to find solutions. A give-and-take like this is the only way we are going to find out how to make this run better. In this case we find it is not running as well as we think it should, and we want to see it improve.

Mr. **Balatero**. Could I make one last point as a suggestion?

You asked how can we improve our financial program. An item that several international bankers have asked: Why doesn't SBA guarantee a standby letter of credit? Well, we don't have that authority to guarantee a financial instrument. Our authority is for the pre-export financing.

Mr. **Ireland**. Let me interject.

I was the author of this particular small thing in there, having spent 25 years owning and running banks myself. Your problem is with the legal counsel of the SBA, the whole point the way it was drawn is in order to have the SBA in this area to be using in effect revolving lines of credit and letters of credit.

If we have a problem there, it is getting the lawyers to understand exactly what the intent was. If they cannot understand it, we would be glad to rehash the law. But the point and the purpose was there. We think it is adequate. We have had conversations with legal counsel along that line. Lawyers are lawyers.

Mr. **Balatero**. That is interesting.

Mr. **Ireland**. If it needs to be changed, we will change it. That is the kind of thing that Congressman Wyden is referring to.

Mr. **Balatero**. So in your interpretation, the intent of Congress——

Mr. **Ireland**. Absolutely, I was on the conference committee and I made that point right there. But that doesn't help you personally. Thank you so much.

Mr. **Balatero**. You are welcome.

Mr. **Ireland**. Our next witness is the manager of the international trade division, Oregon Economic Development Department, Mr. Douglas Frengle, and with him is Mr. Lloyd Porter.

Welcome.

TESTIMONY OF DOUGLAS FRENGLE, MANAGER, INTERNATIONAL TRADE DIVISION, OREGON DEPARTMENT OF ECONOMIC DEVELOPMENT

Mr. **Frengle**. I am Doug Frengle. I manage the international trade division for the Economic Development Department of the State of Oregon.

Mr. **Porter**. I am Lloyd Porter. I am the district director of the International Trade Administration of the U.S. Department of Commerce.

Mr. **Ireland**. Gentlemen, we will put your statement in full into the record. I would ask you to take off from there and hit the points that you think we need to know most about.

Mr. **Frengle**. Thank you, Mr. Chairman.

In receiving the invitation to talk today, I was asked to explain basically what the State's role is in international trade, and how we fit into the whole picture.

First of all, virtually every State in the Nation is involved to some extent in the area of international trade development. It varies from a part-time effort in some of the smaller States to a very well-staffed, well-funded effort that you find in the industrial States—Illinois, New York, and so forth.

Oregon fits somewhere in between. In this State we have two agencies involved in trade development. Both have similar size staffs for the efforts. One is the Department of Agriculture, and the other is the Economic Development Department that I am with.

We have a staff of eight people, six program staff, two support staff. We have not always been at that level, but we are today. I can say that I am pleased at the action of the Ways and Means Committee last week, that we are now, or come October 1 we will be totally State-funded. We have been 60 percent funded out of Federal grants which will be expiring at the end of September. So our State has made a financial commitment to trade development, and we are very pleased about that.

Our program was first established a little over 10 years ago when the States were being encouraged by the Federal Government to assume an expanded and more direct role in the promotion of international business. This is not to say that the States will ever or should ever replace the Federal program, but rather that we should be working together to develop U.S. exports. In this State there is an excellent working relationship between the State and the Federal Government, namely, the U.S. Department of Commerce here today, and we are very pleased with that.

We have the belief that by working together we can accomplish much more and eliminate any possible duplication than if we went off in our own individual directions. So we are working hard to make sure that there is no duplication of effort.

As part of this testimony, I have attached a copy of our division's international business development plan. This plan basically lays the framework for our trade development effort for the next 5 years. It was developed last summer with the input of a number of people from around the State, from the private and public sectors, who are members of the Oregon International Trade Committee. That committee is advisory to our department.

I would like to quickly summarize that plan.

Basically, it identifies two strategies. The first deals with the area of awareness, information and motivation. As was mentioned earlier, oftentimes some of the smaller companies are not familiar with the programs that are available or where to turn for information. This strategy is aimed at the area of information now, which we feel is critical to a successful trade development program.

Oregon businesses must be aware of the State program and the services that are available to them. The legislature and the general public must be aware of the importance of international trade to Oregon in order to avoid artificial roadblocks to the further development of trade. And business people overseas must be aware of Oregon and the products and services that are available from this State.

In addition to awareness, it is also important that meaningful information be provided to businesses in order to assist in the marketing of Oregon products and to expedite the mechanics of trade itself.

Furthermore, a firm must also be motivated into action, and must make a long-term commitment to service the export market. The strategy for creating awareness, providing the necessary information and motivating firms into action includes some of the following.

Export workshops. Every spring and every fall we put on a series of two export workshops around the State. I might mention these are in close concert with the Department of Commerce, the State Department of Agriculture, and other appropriate organizations.

Each year we highlight companies that have been successful in international marketing. We have the Governor's annual "International Marketing Award" program. This May marked the 10th year of that program. So we are able to publicize those companies that have been successful in international trade in order to hopefully motivate other companies into the export market.

We put out informational brochures—I have some with me today, which I will submit—on various aspects of trade. We publish a domestic newsletter that announces some of the upcoming programs on international trade. This I am also including. This I might mention is also published with the Department of Commerce, and at least the next coming issue with the State Department of Agriculture. We publish an international version of the newsletter that goes overseas in order to create an awareness of Oregon and our products.

One of the news publications that we have come up with is the Oregon Exporter Handbook, which is this three-ring binder that basically takes a company through all the various steps of export, from receiving the first inquiry to responding to that inquiry, to methods of payment, to documentation, to setting up overseas distributors and so forth. That is something that is made available to Oregon companies.

We have received national recognition for that. We feel it is a very useful, or we have been told it is a very useful document for the smaller companies.

We also publish an Oregon International Trade Directory. This directory lists 900 companies in the State, all of them exporting and importing. This is something that is distributed overseas, again to develop trade contacts.

In the area of World Trade Week, there are a number of activities, a number of organizations involved in those activities. We are part of the coordinating group for that. We have in our office an international trade reference library that is available to companies. Some of that material is from the Federal Government, some from the private sector, a number of market studies are available to the companies.

We provide individualized counseling and assistance. On our staff we have six professional people, all of who come from the private sector, with experience in international trade, that are available for counseling with companies on a one-to-one basis. Part of their job is to go around to companies throughout the State—they are given territory assignments as well as industry assignments, and they are responsible for calling on the companies and working with them. That represents a large part of our program.

The question arose earlier about education. There is an institute being started in Portland, at Portland State University, the Institute for International Trade and Studies. It should be operational I understand in September. We have been talking with the people involved in developing that institute about doing research for the Department and for Oregon companies that would be useful in trade development efforts.

So not only would the institute be conducting classes for students in international business and offering a certificate in that area, but also doing research, as well as an outreach program for business people who want to extend their education in the field of international business. That is one thing happening in Oregon, and I think should be very helpful in the total picture of trade development. It is one that the state works very closely with.

Our second strategy is based on the premise that to be effective a targeted approach should be taken. Activities should be targeted primarily at those industries, countries, and companies representing the greatest potential force for new export development.

As the kickoff for this plan, last fall we conducted a survey of Oregon manufacturers. We sent out a questionnaire to companies.

We excluded rock quarries, and some of the obvious firms we assume wouldn't have much success in the export market. But from the response we got, we were able to use that as a basis for the development of our plan.

I would like to quickly run through some of the responses.

Four to six companies said that they would like us to work with them in helping them develop their export business; 48 percent said they wanted personal contact; 16 percent said they were interested in trade missions; 16 percent also said they were interested in overseas trade exhibitions; 28 percent were interested in export workshops that are held around the State, and 52 percent were interested in market information that could be provided to them.

So based on that, we structured our work program.

Also based on that survey, we identified target industries. As I mentioned earlier, our trade specialists are responsible for a particular industry—doing everything that is related to that promotion, including market research, developing what market research material is available, and making sure that the companies are aware of that information, calling on the firm, setting up industry-related seminars, actually conducting trade missions and organizing Oregon participation in overseas exhibitions.

So that is the approach we take. We feel it very targeted. We feel it is quite effective.

Along those lines for the particular industry we have promotional materials. We have industry directories that we are now compiling. We have just finished one on forest industry equipment. That will be used during trade missions and exhibitions overseas.

We have a series of three other industry type directories being compiled, as well as slide presentations that again would be used overseas.

We also work with incoming trade delegations. We feel it is very important that companies have face-to-face contact with overseas business people if they are to conduct business. All of the efforts that we go into is to get a company to that point basically.

I could go into the workings of trade missions and trade exhibitions, but I am sure you are familiar with that area. I don't want to take up much time. I will, however, say as part of our program we have one overseas promotion target industry per year, which averages five to six overseas promotions annually. So that is the volume of overseas activity we are looking at. We have been very successful.

Again we feel it is very important for the business people to get overseas, see first-hand what the market is, make the contacts and negotiate the business themselves.

With that I will close.

[Mr. Frengle's prepared statement, with attachments, follows:]

Prepared Statement of Douglas Frengle, Manager, International Trade Division, Oregon Economic Development Department, Portland, Oreg.

MY NAME IS DOUGLAS FRENGLE AND I AM MANAGER OF THE INTERNATIONAL TRADE DIVISION OF THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT. I HAVE BEEN WITH THE DEPARTMENT SINCE THE BEGINNING OF THEIR EFFORTS TO DEVELOP INTERNATIONAL TRADE, WHICH BEGAN IN 1972. PRIOR TO THAT TIME, I WAS AN INTERNATIONAL BANKER. BECAUSE OF THIS LONG STANDING INVOLVEMENT IN THE DEVELOPMENT OF THE PROGRAM, I FEEL I AM IN AN APPROPRIATE POSITION TO TALK ABOUT OREGON'S TRADE DEVELOPMENT EFFORTS AND SOME OF THE PROBLEMS FACED BY SMALL COMPANIES IN SELLING OVERSEAS.

BEFORE PROCEEDING WITH THIS TESTIMONY, I WOULD LIKE TO THANK YOU FOR COMING TO OREGON WITH THIS HEARING. IT IS VERY APPROPRIATE THAT THIS HEARING BE HELD IN OREGON FOR TWO REASONS. FIRST, THE STATE IS HEAVILY DEPENDENT UPON INTERNATIONAL TRADE, IN FACT, ONE OUT OF EVERY 6½ MANUFACTURING JOBS IN OREGON IS DEPENDENT UPON EXPORTS. THIS RANKS OREGON AS NUMBER 9 IN THE NATION. SECOND, OREGON HAS A HIGH CONCENTRATION OF SMALL COMPANIES. 92% OF OREGON'S MANUFACTURERS EMPLOY FEWER THAN 250 PEOPLE. IT IS THE SMALL AND MEDIUM SIZED COMPANIES THAT OUR

DEPARTMENT HAS THE GREATEST CONTACT WITH.

RATHER THAN TALK ABOUT THE VOLUME OF INTERNATIONAL TRADE IN OREGON, AND ITS IMPACT ON THE OREGON ECONOMY, I WOULD LIKE TO CONCENTRATE ON THE ROLL OF THE STATE IN TRADE DEVELOPMENT AND DESCRIBE SOME OF THE SERVICES WHICH WE OFFER TO COMPANIES INTERESTED IN EXPORTING AND TO EXPLAIN THE RELATIONSHIP BETWEEN OUR PROGRAM AND THE PROGRAMS OFFERED BY OTHER ORGANIZATIONS.

VIRTUALLY EVERY STATE HAS SOME FORM OF PROGRAM TO DEVELOP INTERNATIONAL TRADE, OR TO RESPOND TO THE QUESTIONS RAISED BY THEIR COMPANIES REGARDING INTERNATIONAL TRADE. THESE PROGRAMS CAN RANGE FROM A PART TIME EFFORT SIMILAR TO THE ONE IN IDAHO, TO A MAJOR WELL FUNDED AND WELL STAFFED PROGRAM SUCH AS THE ONE FOUND IN THE INDUSTRIAL STATES OF ILLINOIS AND NEW YORK. FOR A STATE THE SIZE OF OREGON, WE HAVE ONE OF THE MORE DEVELOPED PROGRAMS. IN THIS STATE, THERE ARE TWO STATE AGENCIES INVOLVED IN TRADE DEVELOPMENT; OUR DEPARTMENT OF AGRICULTURE AND THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT. BOTH AGENCIES HAVE SIMILAR SIZED STAFFS. THE TRADE DEVELOPMENT PROGRAM WITHIN THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT, WHICH I AM A PART OF, HAS A STAFF OF 6 PROGRAM PEOPLE AND 2 SUPPORT STAFF.

AS I MENTIONED EARLIER, OUR PROGRAM WAS FIRST ESTABLISHED OVER 10 YEARS AGO WHEN STATES WERE BEING ENCOURAGED BY THE FEDERAL GOVERNMENT TO ASSUME AN EXPANDED AND MORE DIRECT ROLL IN THE PROMOTION OF INTERNATIONAL BUSINESS.

THIS IS NOT TO SAY THAT THE STATES WILL EVER, OR SHOULD EVER, REPLACE THE FEDERAL PROGRAM, BUT RATHER THAT WE SHOULD BE WORKING TOGETHER TO DEVELOP U. S. EXPORTS. IN THIS STATE, THERE IS AN EXCELLENT WORKING RELATIONSHIP BETWEEN THE U. S. DEPARTMENT OF COMMERCE AND THE OREGON ECONOMIC DEVELOPMENT DEPARTMENT IN THE AREA OF TRADE DEVELOPMENT. THIS IS BASED ON THE BELIEF THAT BY WORKING TOGETHER, WE CAN ACCOMPLISH MUCH MORE AND PROVIDE GREATER SERVICES TO OREGON COMPANIES THAN IF WE BOTH WENT OUR INDEPENDENT DIRECTIONS.

AS PART OF THIS TESTIMONY, I HAVE ATTACHED A COPY OF OUR DIVISION'S INTERNATIONAL BUSINESS DEVELOPMENT PLAN. THIS PLAN, WHICH WAS DEVELOPED LAST SUMMER AND ADOPTED BY THE GOVERNOR OF OREGON, LAYS THE FRAMEWORK FOR OUR TRADE DEVELOPMENT EFFORTS OVER THE NEXT FIVE YEARS. I MIGHT MENTION ALSO, THAT THIS PLAN REPRESENTS THE JOINT EFFORTS OF THE MEMBERS OF THE OREGON INTERNATIONAL TRADE COMMITTEE, WHICH IS ADVISORY TO OUR DEPARTMENT AND INCLUDES MEMBERS FROM THE PUBLIC AND PRIVATE SECTORS CONCERNED WITH INTERNATIONAL TRADE.

LET ME QUICKLY SUMMARIZE THE PLAN AS IT PERTAINS TO TRADE DEVELOPMENT. BASICALLY, IT IDENTIFIES TWO MAJOR STRATEGIES.

STRATEGY: AWARENESS AND MOTIVATION

INFORMATION FLOW IS CRITICAL TO A SUCCESSFUL TRADE DEVELOPMENT

PROGRAM. OREGON BUSINESSES MUST BE AWARE OF THE STATE PROGRAM AND THE SERVICES THAT ARE AVAILABLE TO THEM. THE LEGISLATURE AND THE GENERAL PUBLIC MUST BE AWARE OF THE IMPORTANCE OF INTERNATIONAL TRADE TO OREGON IN ORDER TO AVOID ARTIFICIAL ROADBLOCKS TO THE FURTHER DEVELOPMENT OF TRADE. BUSINESS PEOPLE OVERSEAS MUST BECOME AWARE OF OREGON AND ITS PRODUCTS AND SERVICES FOR EXPORT.

IN ADDITION TO AWARENESS, IT IS ALSO IMPORTANT THAT MEANINGFUL INFORMATION BE PROVIDED TO BUSINESS IN ORDER TO ASSIST IN THE MARKETING OF OREGON PRODUCTS AND TO EXPEDITE THE MECHANICS OF TRADE ITSELF. FURTHERMORE, A FIRM MUST ALSO BE MOTIVATED INTO ACTION: IT MUST MAKE A LONG-TERM COMMITMENT TO SERVICE THE EXPORT MARKET. THE STRATEGY FOR CREATING THE AWARENESS, PROVIDING THE NECESSARY INFORMATION AND MOTIVATING FIRMS INTO ACTION INCLUDES:

- HOW-TO-EXPORT TYPE WORKSHOPS, STATEWIDE
- GOVERNOR'S INTERNATIONAL MARKETING AWARD PROGRAM
- INFORMATION BROCHURES
- NEWSLETTER, DOMESTIC EDITION
- NEWSLETTER, INTERNATIONAL EDITION
- EXPORTER'S HANDBOOK
- OREGON INTERNATIONAL TRADE DIRECTORY
- WORLD TRADE WEEK ACTIVITIES
- INTERNATIONAL TRADE REFERENCE LIBRARY
- TRADE SEMINARS, AIMED AT SPECIFIC MARKETS/TOPICS
- INDIVIDUALIZED COUNSELING AND ASSISTANCE

- PUBLIC SPEAKING APPEARANCES
- LEGISLATIVE REVIEW AND INPUT
- SUPPORT OF TRADE-RELATED ORGANIZATIONS
- SUPPORT OF INTERNATIONAL BUSINESS STUDIES CERTIFICATE PROGRAM

OUR SECOND STRATEGY IS BASED ON THE PREMISE THAT TO BE EFFECTIVE, A TARGETED APPROACH SHOULD BE TAKEN.

STRATEGY: TARGET APPROACH

ACTIVITIES SHOULD BE TARGETED PRIMARILY AT THOSE COUNTRIES, INDUSTRY SECTORS AND COMPANIES REPRESENTING THE GREATEST POTENTIAL FORCE FOR NEW EXPORT DEVELOPMENT.

AS THE KICKOFF FOR THIS PLAN, A SURVEY WAS TAKEN TO ANALYZE THE COMPOSITION OF OREGON MANUFACTURERS TO ASCERTAIN THE OVERALL POTENTIAL FOR EXPORTS. THE SURVEY, WHICH CONSISTED OF A MAIL INQUIRY TO ALL APPROPRIATE MANUFACTURERS IN OREGON, EXPLAINED THE INTERNATIONAL TRADE DEVELOPMENT PROGRAM, AND ASKED THAT THEY RETURN A SHORT QUESTIONNAIRE.

FROM THESE REPLIES, WE WERE ABLE TO DETERMINE THE INDUSTRIES BEST SUITED FOR EFFECTIVE EXPORT PROMOTION, THE COMPANIES WANTING ASSISTANCE IN FURTHERING THEIR EXPORT ACTIVITIES, AND THE TYPE OF ASSISTANCE MOST DESIRED.

THIS SURVEY SERVES AS THE BASE FOR THE DEPARTMENT'S TRADE

DEVELOPMENT PROGRAM. BASED ON THE SURVEY, THE DEPARTMENT'S PROGRAM INCLUDES A MIXTURE OF THE FOLLOWING ACTIVITIES:

- COMPANY CALLS - - IT IS IMPORTANT THAT THE TRADE SPECIALIST KNOW THE COMPANIES IN THE INDUSTRY AND THE COMPANIES SHOULD KNOW THE PERSON ASSIGNED TO THEM. THIS PERSONAL RAPPORT IS ABSOLUTELY NECESSARY WHEN RECRUITING FOR TRADE MISSIONS AND PROVIDING INDIVIDUAL ASSISTANCE. NON-TARGET INDUSTRY FIRMS INTERESTED IN EXPORTING WILL ALSO BE SERVICED BY STAFF.
- MARKET RESEARCH - - OVERSEAS MARKET INFORMATION IS COMPILED FOR EACH INDUSTRY FROM VARIOUS GOVERNMENT AND PRIVATE SOURCES. THE TRADE SPECIALIST THEN DISSEMINATES THAT INFORMATION TO THE INDUSTRY AS APPROPRIATE. THIS MARKET RESEARCH INFORMATION IS INSTRUMENTAL IN CHOOSING TARGET COUNTRIES IN WHICH TO CONCENTRATE PROMOTIONAL EFFORTS.
- PROMOTIONAL MATERIALS - - APPROPRIATE PROMOTIONAL MATERIALS, I.E., SLIDE PRESENTATIONS AND INDUSTRY CATALOGS, WILL BE PREPARED IN ORDER TO PROMOTE THE INDUSTRY AT OVERSEAS EXHIBITIONS, SEMINARS AND OTHER EVENTS.
- INCOMING DELEGATIONS - - AFTER IDENTIFYING APPROPRIATE TRADE ASSOCIATIONS AND GOVERNMENT AGENCIES ABROAD, INVITATIONS WILL BE EXTENDED FOR DELEGATIONS TO COME TO OREGON. THESE DELEGATIONS WILL BE HOSTED AND INTRODUCED TO OREGON BUSINESSES IN AN EFFORT TO DEVELOP TRADE CONTACTS.

- INDUSTRY TECHNICAL SEMINARS (ABROAD) - - AS A FIRST STEP IN INTRODUCING OREGON COMPANIES AND THEIR PRODUCTS INTO AN OVERSEAS MARKET, THEY ARE ASKED TO PROVIDE LITERATURE, SLIDES AND OTHER INFORMATION AS APPROPRIATE. THE TRADE SPECIALIST THEN ORGANIZES A TECHNICAL SEMINAR IN A SELECTED MARKET, IN ORDER TO SURVEY THE MARKET, DEVELOP TRADE CONTACTS FOR THE OREGON FIRMS, AND TO LAY THE GROUNDWORK FOR A FOLLOW-UP TRADE MISSION.
- TRADE MISSIONS - - THIS IS AN EXCELLENT MEANS THROUGH WHICH A FIRM CAN PERSONALLY ENTER THE MARKET FOR THE FIRST TIME. BUSINESS APPOINTMENTS ARE PREARRANGED FOR THE FIRM, THEREBY ALLOWING FOR MAXIMUM UTILIZATION OF THE INDIVIDUAL'S TIME.
- OVERSEAS TRADE EXHIBITIONS - - THESE CAN BE VALUABLE IN TESTING THE MARKET POTENTIAL OR SUPPORTING THE EFFORTS OF A FIRM'S OVERSEAS REPRESENTATIVE. CONSUMER ITEMS AND SMALLER ITEMS REQUIRING A MINIMAL AMOUNT OF TRANSPORTATION COSTS OFTEN FIND THE GREATEST RETURN.

- OREGON TRADE EXHIBITIONS - - THESE CAN SERVE AS THE HOOK FOR ATTRACTING FOREIGN TRADE DELEGATIONS AND BUYERS TO OREGON.
- INDIVIDUAL COMPANY FOLLOW-UP - - FOLLOWING AN OVERSEAS ACTIVITY, A GREAT DEAL OF INDIVIDUALIZED ASSISTANCE IS PROVIDED TO THE PARTICIPATING COMPANY.

I HAVE TALKED AT SOME LENGTH REGARDING THE KINDS OF SERVICES THAT WE OFFER OREGON COMPANIES. PERHAPS, YOU ARE WONDERING ABOUT THE RESULTS OF THE PROGRAM. AS YOU MAY KNOW, WE OPERATE ON A 2 YEAR BUDGETARY CYCLE. IT IS TO EARLY TO IDENTIFY THE RESULTS OF THE FULL BIENNIUM, WHICH JUST ENDED JUNE 30TH, BUT DURING THE FIRST FISCAL YEAR OF OUR JUST COMPLETED BIENNIUM, WE WERE ABLE TO IDENTIFY A NUMBER OF SIGNIFICANT RESULTS:

- 15 COMPANIES RECEIVED THEIR FIRST OVERSEAS EXPOSURE.
- 20 COMPANIES WERE INTRODUCED TO ONE OR MORE OVERSEAS MARKETS FOR THE FIRST TIME.
- 6 COMPANIES WERE ABLE TO EXPAND THEIR MARKET SHARE.
- $25.5 MILLION IN ESTIMATED NEW EXPORT SALES WERE GENERATED BY THE DEPARTMENT'S ACTIVITIES AND ASSISTANCE - AS PROJECTED BY FIRMS THEMSELVES.
- 607 JOBS WERE RETAINED OR CREATED.
- $3.5 MILLION IN DIRECT FEDERAL AND STATE TAX REVENUE AND SAVINGS WERE GENERATED.
- THE DEPARTMENT'S INTERNATIONAL TRADE DIVISION RECEIVED THE PRESTIGIOUS PRESIDENTIAL "E" AWARD FOR EXCELLENCE IN EXPORT.

AT THIS POINT, I AM PREPARED TO ANSWER ANY QUESTIONS WHICH YOU MIGHT HAVE.

JH 7/7/83

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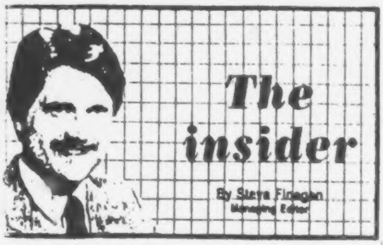


The insider

By Steve Finegan
Managing Editor

It's been said that a journey of many miles gins with just one step.

Just such a step has been taken by the International rade Division of the Oregon Department of Economic evelopment, which recently launched its Inrnational Business Development Plan with a survey 3,705 state businesses.

"The survey was initiated to analyze the composin of Oregon manufacturers to ascertain the overall tential for exports," says Douglas Frengle, division anager.

The direct mail survey netted Frengle 406 responses om manufacturers of consumer products, agridustry equipment, forest products equipment, buildg materials, high technology, industrial equipment id supplies and mining and construction equipment.

A high 48.5 percent of the responses ask for more rsonal contact with foreign buyers. That gives the ternational Trade Division some substance to work ith as it outlines its strategy for increasing Oregon's are in the world marketplace.

"Right now we're sorting through the responses, determining the industries best suited for effective exrt promotion, the companies wanting assistance in rthering their export activities and the type of assisnce most desired," explains Frengle. That might clude personal contact, trade missions, exhibitions, port workshops and simple market information.

"This survey will serve as the base for our entire ade development program," Frengle told me over nch the other day.

That program—which has been somewhat overadowed by the overall state economic marketing an called "Oregon's Growing, Naturally"—is a flection of this recession and the ballooning signifince of international trade to Oregon's economy:

According to the EDD, international trade through e Oregon Customs District has increased from 12.2 rcent of Gross State Product in 1970 to 21.5 percent in 80.

Per capita exports during the same period increased rom $376 to $1,437.

Moreover, one out of every 6.5 manufacturing jobs in Oregon is dependent on exports, ranking this state ninth in the nation for percentage of manufacturing employment tied to exports.

Finally, exports generate an estimated $76 million in tax revenue for the state each year, and over $440 million in tax revenue and tax savings for the federal government.

With this much riding on international trade, Frengle is determined to introduce many Oregon companies to one or more overseas markets in this decade. He says the division's programs to introduce businesses to overseas markets in the first year of this biennium generated $25.5 million in new export sales, while saving or creating 607 jobs.

Because of its importance, Frengle says Gov. Vic Atiyeh's budget for this legislative session includes a request for funding for the International Trade Division from the state's General Fund. This would pick up the slack left by cuts in federal grants, which is expected to amount to some 50 percent of the division's budget of $440,000.

As he looks ahead to 1983 and beyond, Frengle plans to implement the division's marketing strategy through several target approaches:

With the survey complete, industry groups will be assigned trade specialists who will act as go-betweens for the exporter and his market.

Additionally, the division plans to collect detailed overseas market research for each industry from various government and private sources.

It also will produce promotional materials; host trade delegations in Oregon; sponsor industry technical seminars, trade missions and exhibitions in foreign countries to introduce Oregon businesses abroad; put on Oregon trade exhibitions as a hook to attract trade delegations here; and, finally, follow-up on all this activity.

The second target approach is aimed at making Oregon's businesses aware of the division's programs and services. Frengle says the strategy for creating public awareness and motivating firms into action centers around statewide how-to-export workshops, seminars, brochures, newsletters, handbooks, a trade directory, reference library, counseling, speakers and certificate and awards programs.

The final aspect of the division's marketing strategy reaches out to foreign companies in an effort to attract employment generating investments to Oregon.

This could be done aggressively through an international industrial recruitment task force. The task force would conduct an inventory of direct foreign investment in Oregon, develop a marketing strategy, produce sales and promotional tools, conduct direct mail and target advertising campaigns, put together recruitment missions and seminars and follow-up on leads.

There's no doubt that the above plan is a costly venture, but Frengle says the burden can and should be shared by government and industry.

"Government should provide the leadership and support which enable companies to compete in the international marketplace," he says. "Industry, likewise, must be prepared to take the risk and make the financial commitment necessary to succeed internationally."

How Beaverton's Plywood Equipment Sells the World

By Russ Jennings

September 1982 found Plywood Equipment Sales of Beaverton exploring the South Pacific. Unlike Captain Bligh and his ill-fated crew of the Bounty, I was after much more than breadfruit. As part of an Oregon Economic Development Department's trade mission to Australia and New Zealand I was busy arranging export sales to local users of reconditioned plywood, veneer and wood based panel making equipment.

Plywood Equipment Sales didn't stumble across Australia like our high-risk explorers of yesteryear; we learned exporting gradually. Today we export approximately 60 percent of our reconditioned machinery throughout the world, and the return to our Beaverton-based firm is more lucrative than Captain Bligh would ever have imagined.

Fourteen years ago when we started our company, international trade was integral in our planning. Because of our inexperience, we had nothing to unlearn, and many people saw fit to advise us of our folly. Surely, all of these things served to spur us on and to make our own way, doing our own thing.

In selling reconditioned plywood and veneer machinery it wasn't really known what type of reception we would receive or exactly how to go about it, only that we felt there was a place in the whole scheme of things for someone who would do it right and honestly.

We initially developed a mailing list that included nearly every country that had a forest products industry and this served as our only ongoing contact with overseas customers. Traveling throughout the United States, Canada and Mexico was relatively easy and represented approximately 90 percent of our total business, with no real thought or intention of traveling anywhere else around the world. As time passed, more and more customers visited our facility in Beaverton and our percentage of export business increased every year. However, we still didn't grasp the significance of what we were really doing in the international marketplace.

The very nature of our business is somewhat limiting in that only a certain amount of used, sound equipment becomes available at any one time, and this has to be prepared on a custom basis for each user's need. Foreign customers found that equipment produced in North America is very long-lived and robust. Coupled with our rebuilding expertise and the reduced price, they soon began to order again and again.

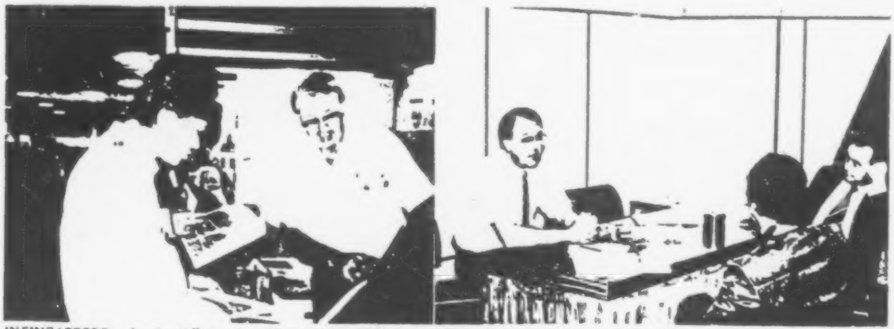
We had begun to do a little traveling overseas but it mostly consisted of seeing known customers and their referrals. In early 1980, we traveled to Southeast Asia and Australia as a member of a trade mission sponsored by the Oregon Economic Development Department. This proved to be the single most important stimulant we needed to really shift into high gear as we learned how to present our wares and to use the significant services that are available to small companies trying to compete in the enormous world market.

The excellent cooperation and effective coordination the Oregon state representatives have with the U.S. Department of Commerce, U.S. embassies and consulates is very important. We have complete confidence in them all. These people are very dedicated and have most of the answers, if you simply will ask. They are like partners and because their job keeps them in close contact with the local scene and access to industry, their help is invaluable and freely given.

As a small company, travel abroad is a significant expense, but around 75 percent of our business is now conducted out of the United States, and the real expense would be if we failed to travel!

In the last few years many domestic firms have faced a sink-or-swim decision. Unlike Captain Bligh's risky venture that brought him only soggy breadfruit, Plywood Equipment Sales' exports have brought us clear sailing and enough revenues to float through the current stormy weather.

Russ Jennings is sales manager at Plywood Equipment Sales.



IN SINGAPORE Russ Jennings talks to potential buyers at Wood '83 in January 1983, and continues his travels to talk with potential buyers in Sydney, Australia at Economic Development Trade Mission September '82.

WEST METRO

Photographic processors successful

By RICHARD COLBY
of The Oregonian staff

BEAVERTON — Build a better photographic processing machine and the world — with a little help from the state of Oregon — will beat a path to your shipping bay.

Entrepreneurs Ray Wing and Dee Lynch have discovered that happy fact in conceiving and manufacturing a series of automated film and print developers. The developers were outgrowths of Wing's stint as a professional photographer and Lynch's as biomedical engineer for Good Samaritan Hospital and Medical Center in the 1960s.

Tiring of twisting his wrist for several minutes to slosh color-processing chemicals evenly over each developing roll, Wing decided there had to be a better way, and Lynch's engineering skills provided it.

A prototype machine originally was intended just for use at the hospital, recalls company Vice President Bill Winton, who joined Wing and Lynch in 1977. A salesman saw the device working and suggested that they market it.

The pair began making them on consignment and soon found the demand growing despite the sluggish economy.

Now, Wing is bo[redacted]ch president of the 25-perso[redacted]ugly located in 9,000 square [redacted] Beaverton Koll Business Center, but likely to expand again in the near future.

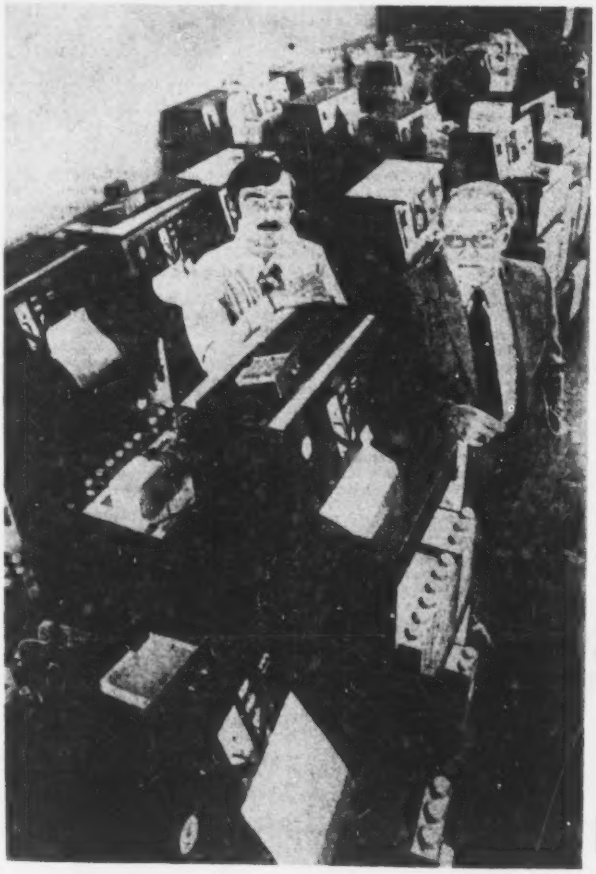
The company's particular market segment takes up where the high-volume commercial film processors leave off, Winton said.

That includes organizations for which high-quality, reliable film processing is needed in small to moderate volume daily, such as newspapers and magazines, hospitals, educational organizations, advertising and public relations firms or the photography labs operated within large corporations, Winton said.

Production has reached 20 machines a month, including four or five sold outside the United States, mostly in Canada and Australia.

For the overseas trade, Winton said the firm was helped significantly by the state Department of Economic Development's International Trade Division in Portland.

"They really took the fear out of it," Winton said of the agency, which provided information on everything from the various ways of doing business peculiar to each country to matters like freight forwarding and general export management. They answered a lot of our questions," he said.



Staff photos by

HOT SELLER — Bill Winton (left) and Ray Wing stand among the photographic developers t become an overnight success around the world.

array of storage tanks, according to instructions programmed into a plug-in module for each type of film.

The operator need only insert the film and the correct module — and come back when the film is processed, Winton said.

an automated water-temperature controlle between the water tap and the developing The controller keeps water flow within a degree Fahrenheit, vital to many photo-de processes.

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The pair began making them on consignment and soon found the demand growing despite the sluggish economy.

Now, Wing is board chairman and Lynch president of the 25-person Wing-Lynch Inc., snugly located in 9,000 square feet of space in the Beaverton Koll Business Center, but likely to expand again in the near future.

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Each of the company's machines stands just under five feet tall and consists of a developing trough, in which clear plastic cylinders holding film rolls are processed under cover.

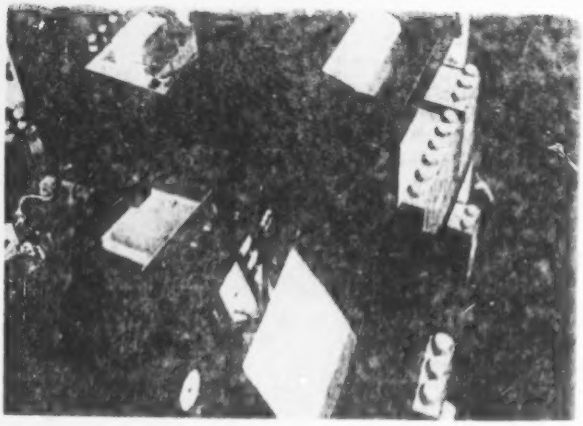
As the turn comes for each chemical in a particular film's development process, the machine automatically pumps it into the trough from one of an array of storage tanks, according to instructions programmed into a plug-in module for each type of film.

The operator need only insert the film and the correct module — and come back when the film is processed, Winton said.

A refinement has been added that routes used chemicals into other storage tanks for reuse. Chemicals awaiting use in the holding tanks are protected from oxidizing by a blanket of pressurized nitrogen gas.

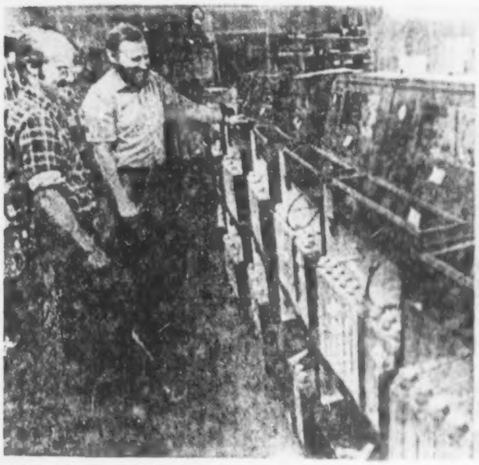
Wing-Lynch's product line, with a variety of storage-tank possibilities, has diversified to include an automated water-temperature contro between the water tap and the developin The controller keeps water flow within degree Fahrenheit, vital to many photo- processes.

Winton hinted at other product devel the planning stages by noting that there stant need to conceive new items to sta tive. One other Minneapolis-based firm processor for the same market, he said, al storage tanks must be replenished after processing, giving the Wing-Lynch m advantage.



Staff photos by R

HOT SELLER — Bill Winton (left) and Ray Wing stand among the photographic developers become an overnight success around the world.



GROWING — Mark Fitzgerald (left), a m al assembler, and Gerald Gettmann, a production supervi are e pany's success.

TESTING TANKS — Robert Howard vacuum tests the chemic the electronic photo developer.

DOOR MANUFACTURER FINDS OPPORTUNITIES IN PACIFIC RIM

A door manufacturing company from Klamath Falls, Ore. came away from its first trade mission to the Orient excited about opportunities for sales in the Pacific Rim.

Ken Moore of Jeld Wen Inc was among the half a dozen people that went on last April's trade mission to Japan and Hong Kong sponsored by the [redacted]

This mission, the third forest products mission to the Pacific Rim by the agency, was expanded this year to include building materials.

Jeld Wen exports doors to other parts of the world, but until now has not had many dealings in the Pacific Rim, said Ken Moore, export manager.

Moore said he found prospects in Hong Kong to be excellent because of the many government-funded housing programs there. He said his company's medium density fiber board door - made basically of compressed wood waste - competes well with materials from Southeast Asia because of the quality and lower cost.

The company also found good prospects in Japan where it has an inquiry for possible sale of 25,000 doors.

Moore had high praise for the trade mission itself which he said allowed him to meet and talk face to face with 60-70 potential customers in Japan and Hong Kong

GRAIN COOPERATIVES JOIN FORCES TO EXPAND ASIAN TRADE

The merger of North Pacific Grain Growers and Grain Terminal Association into a new concern called Harvest States Coop. was approved by the directors of both coops in late May.

GTA, of St. Paul, Minn. had sought the merger to provide an export outlet in the Pacific Northwest to complement its existing terminals in Louisana and Minnesota.

"A West Coast terminal is something we've wanted for a long time, particularly in recent years when Pacific Rim nations have increased their demand for American grains," said Donald Giffey, chairman of the board.

Harvest States is expected to become the nation's fourth largest cooperative with farmers in 16 states. New board members from the Northwest are Steven Burnet of Moro, Ore., and Ed Hereford of Thornton, Wash.

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Plastic company aims for Asian market

By LARRY BACON
Of the Register-Guard

FLORENCE — The Southeast Asian market was the farthest thing from John Wells' mind when he received a letter last December from Portland.

"How about joining us for a four-day stand at the Singapore World Trade Center?" asked the Oregon Department of Economic Development.

Wells and his wife, Vi, who operate a mom-and-pop manufacturing business here, decided to join the Oregon delegation to Wood '83, an international wood products exposition, and found the $6,000 for the trip.

They came home with a $200 order, which may not seem like much of a return on their investment. However, Wells says he's "very, very pleased" with the results.

The couple say nobody had more fun at the exposition, and they may have opened an overseas market for their business, which specializes in plastic wedges used by timber cutters.

The $200 order came from a Malaysian logging supplier, who may be placing more orders. But what pleased the Wellses most was negotiating an agreement with a Singapore agent to act as their distributor for Southeast Asia.

John Wells is still scratching his head about why his small company was invited to Singapore. It was the smallest of the nine Oregon companies that made the trip and was one of the smallest at the exposition.

Wells Plastic Co. operates in a metal building behind The Saw Shop, a chain saw and logging supply store on Highway 101. About five years ago, Wells sold The Saw Shop and inverted in a used plastic molding machine. He thought he could manufacture better plastic wedges than those he had been selling to loggers from his store.

The business has grown steadily from year to year. Wells makes nine different kinds of wedges and sells hundreds of thousands each year. The company also does custom plastics work and makes parts ranging from components for sophisticated electronics gear to canoe paddles.

Wells Plastic has four molding machines, but John Wells and two employees can still handle all the manufacturing. Vi Wells takes care of the books.

Jo Morgans, the international trade specialist who led the Oregon delegation to Singapore, says one of the goals of the state Department of Economic Development is to encourage small Oregon businesses to develop overseas markets. Invitations to attend the Singapore exposition were sent to about 75 relatively small companies known to be suppliers to the wood products industry. Morgans says many showed initial interest but declined the invitation when they found out the cost.

When Wells accepted the invitation, he had little idea that the timber industry was big business in Southeast Asia.

After the couple arrived in Singapore, they learned that Southeast Asia produces 70 percent of the world's hardwoods.

Wells says his colorful plastic wedges generated a lot of interest in the Oregon exhibit. "We were the only Oregon firm that actually took samples and showed a product," Wells says. "The others just handed out literature."

Wells, 56, has an easygoing, aw-shucks manner that makes it easy for him to talk to strangers. He found that most of the visitors to the booth could speak English and were eager to pump him for information about Oregon logging.

"I found out their logging techniques are about 20 years behind times," Wells says. He was surprised, for example, to learn that most of the Southeast Asian timber cutters do not take pains to fall their trees in desirable locations. "They just fall timber in any direction," he says.

Because of his 10 years selling logging supplies at The Saw Shop, Wells was able to share suggestions for improving logging methods with exposition visitors. He also spent two days in Jakarta and Hong Kong meeting with timber industry executives in sessions arranged by the Oregon Department of Economic Development.

"I couldn't be more pleased with the way people accepted us, and the enthusiasm they showed," Wells says.

Part of that enthusiasm was for Wells' information on how his wedges could be used to improve tree-falling techniques.

The logging equipment supplier from Malaysia wrote a check on a New York bank for a $200 sampling of wedges, file handles, and chain saw guards to show to his customers. If the customers like them, more orders will follow, Wells says.

The cluster of people around the Wells display in the Oregon booth attracted the attention of a Singapore logging supply distributor who asked if he could handle the Wells products. He turned out to be a transplanted American from Roseburg.

Wells has no visions of riches from the Southeast Asian trade, but he hopes to at least pay for his trip.

He and his wife are already talking about going to the next Singapore exposition two years from now.

Staff photo by Larry Ba

John Wells displays some of the plastic wedges he makes for timber cutter

Workshops introduce locals to export mart

Oregon's Economic Development Department will organize and conduct four export workshops in 1983 as part of its efforts to introduce Oregon business people to foreign markets.

Douglas Frengle, manager of the department's International Trade Division, says the workshops will be in Salem, Bend, Hillsboro and Newport.

Overseas trade missions

The division also will co-sponsor at least seven trade missions and overseas exhibitions and is continuing its First Friday Export Seminars.

International trade is an increasingly important factor in Oregon's economy, Frengle says. He notes that one of every 6.5 manufacturing jobs in the state is dependent on exports. In 1977, it was one out of nine jobs.

The Economic Development Department co-sponsors export workshops with the U.S. Department of Commerce, Oregon Department of Agriculture and chambers of commerce or other local sponsors.

The first 1983 workshop is being planned for Salem in March. Dates for the others have not yet been set.

Activity under way

The department's 1983 trade mission activity has begun already, with an Oregon group participating in the Wood '83 Exhibition in Singapore.

An Oregon Building Materials Trade Delegation will travel to Japan in April, Frengle says.

The group will visit the trading centers of Osaka and Tokyo, which account for 75 percent of Japan's imports of American building products.

Oregon lumber and building materials companies interested in participating can contact the Economic Development Department's International Trade Division in Portland, 229-5625.

Other trade mission activities this year include a forest industry equipment trade mission to Southeast Asia in April and May; an agriculture and agri-industry, construction and mining equipment trade mission to Canada in May; an industrial equipment and supplies trade mission to the Far East in June; a high technology trade mission and exhibition in Europe in September; and a consumer goods exhibition in Japan in September.

Newcomers welcome

The First Friday Export Seminars, designed for newcomers to foreign trade, are co-sponsored by the state agency and the International Trade Administration of the U.S. Department of Commerce and are held in Portland.

One-on-one too

There is a seminar on the first Friday of every month from 2 p.m. to 4 p.m. The $10 cost covers both seminar participation and handout materials, including the new Oregon Exporter's Handbook. The 200-page handbook has just been completed as a major project of the Economic Development Department's International Trade Division.

In addition to scheduled activities, the International Trade Division is always ready to work with Oregon companies individually to assist them with foreign trade efforts, Frengle says.

INTERNATIONAL BUSINESS DEVELOPMENT PLAN

OREGON ECONOMIC DEVELOPMENT DEPARTMENT

International Trade Division

INTERNATIONAL BUSINESS DEVELOPMENT PLAN

No one can deny the significant and growing importance of international trade to Oregon's economy:

- International trade through the Oregon Customs District has increased from 12.2 percent of Gross State Product in 1970 to 21.5 percent in 1980.
- Per capita exports during the same period increased from $376 to $1437.
- One out of every five farm dollars in sales goes into export.
- One out of every 6.5 manufacturing jobs in Oregon is dependent upon exports. In 1977, it was one out of 9 jobs.
- Oregon ranks ninth in the nation for percentage of manufacturing employment tied to exports.
- Approximately one job is created for every $42,000 in export.
- Exports generate an estimated $76 million in tax revenue for the state each year, and over $440 million in tax revenue and tax savings for the Federal Government.

Results of Current Program

In the first fiscal year of the current biennium, the Oregon Economic Development Department's trade development program achieved a number of significant results:

- 15 companies received their first overseas exposure.
- 20 companies were introduced to one or more overseas markets for the first time.
- 6 companies were able to expand their market share.
- $25.5 million in estimated new export sales were generated by the Department's activities and assistance.*
- 607 jobs were retained or created.
- $3.5 million in direct federal and state tax revenue and savings were generated.
- The Department's International Trade Division received the prestigious Presidential "E" Award for Excellence in Export.

Enabling Legislation

ORS 184-160 states that the Economic Development Department shall

* As projected by firms themselves.

"...consult and advise with, coordinate activities of, and give technical assistance and encouragement to, all parties within the state working in the field of international trade or interested in promoting their own trading activity".

Senate Bill 916, which was passed by the 1981 legislature, additionally gives the Department responsibility for actively recruiting domestic and international firms to the state.

In addition to the Economic Development Department, the Oregon Department of Agriculture also has a legislative mandate to develop international trade. That department is to "...assist in the development of new markets or expand existing markets for farm and food commodities produced or processed in the state".

Goal of International Business Development

To improve the stability, vitality and diversification of Oregon's economy through the expansion of international business.

Objectives

In order to achieve the goal, and to carry out the economic development policies of the state, the following objectives have been identified:

I To Introduce Oregon Companies to Exporting

II To Introduce Oregon Firms to Additional International Markets

III To Assist Firms in Increasing Their International Business

IV To Generate Reverse Investment/Joint Venture/Licensing Prospects

V To Advocate the Development of International Trade

VI To Generate an Awareness in Oregon of International Trade Opportunities, and an Overseas Awareness of Oregon's Products and Services for Export

An analysis shows that, on a national basis, the most successful state programs have several common features:

1. A close cooperation between the state and Federal Government in encouraging policies under which the private sector can develop and maximize its international business potential.
2. Support from the Governor and other influential individuals from both the public and private sectors.
3. Commitment of state officials and state legislatures to international business as an important feature of the state'e economic development.

4. Development of international business programs within the framework of a comprehensive state economic development plan, with compatible goals and objectives.
5. State programs coordinated and implemented in close association with federal programs.
6. A close working relationship between state government and the private sector.
7. Commitment of adequate funds and personnel.
8. Assignment of professionally qualified personnel.
9. Understanding that international business development, as a part of economic development, is a long-term commitment.

These nine elements serve as the foundation for this proposed International Business Development Plan.

Strategy: Target Approach

Activities should be targeted primarily at those countries, industry sectors and companies representing the greatest potential force for new export development.

As the kickoff for this plan, a survey has been initiated to analyze the composition of Oregon manufacturers to ascertain the overall potential for exports. The survey will consist of a mail inquiry to all appropriate manufacturers in Oregon, explaining the international trade development program, and asking that they return a short questionnaire.

From these replies, we will be able to determine the industries best suited for effective export promotion, the companies wanting assistance in furthering their export activities, and the type of assistance most desired.

This survey will serve as the base for the Department's trade development program. Based on the survey, the Department's program will include a mixture of the following:

* Grouping of Industries--Response will be grouped by industry. Each targeted industry will have an international trade specialist assigned to it.

* Company Calls--It is important that the trade specialist know the companies in the industry and the companies know the person assigned to them. This personal rapport is absolutely necessary when recruiting for trade missions and providing individual assistance. Non-target industry firms interested in exporting will also be serviced by staff.

- Market Research--Overseas market information will be compiled for each industry from various government and private sources. The trade specialist will then disseminate that information to the industry as appropriate. This market research information will be instrumental in choosing target countries in which to concentrate promotional efforts.
- Promotional Materials--Appropriate promotional materials, i.e., slide presentations and industry catalogs, will be prepared in order to promote the industry at overseas exhibitions, seminars and other events.
- Incoming Delegations--After identifying appropriate trade associations and government agencies abroad, invitations will be extended for delegations to come to Oregon. These delegations will be hosted and introduced to Oregon businesses in an effort to develop trade contacts.
- Industry Technical Seminars (abroad)--As a first step in introducing Oregon companies and their products into an overseas market, they will be asked to provide literature, slides and other information as appropriate. The trade specialist will then organize a technical seminar in a selected market, in order to survey the market, develop trade contacts for the Oregon firms, and to lay the groundwork for a follow-up trade mission.
- Trade Missions--This is an excellent means through which a firm can personally enter the market for the first time. Business appointments are prearranged for the firm, thereby allowing for maximum utilization of the individual's time.
- Overseas Trade Exhibitions--These can be valuable in testing the market potential or supporting the efforts of a firm's overseas representative. Consumer items and smaller items requiring a minimal amount of transportation costs often find the greatest return.
- Oregon Trade Exhibitions--These can serve as the hook for attracting foreign trade delegations and buyers to Oregon.
- Individual Company Follow-Up--Following an overseas activity, a great deal of individualized assistance is provided to the participating company.

Strategy: Awareness and Motivation

Information flow is critical to a successful trade development program. Oregon businesses must be aware of the state program and the services that are available to them. The legislature and the general public must be aware of the importance of international trade to Oregon in order to avoid artificial roadblocks to the further development of trade. Business people overseas must become aware of Oregon and its products and services for export.

In addition to awareness it is also important that hard-core information be provided to business in order to assist in the marketing of Oregon products and to expedite the mechanics of trade itself. Furthermore, a firm must also be motivated into action; it must make a long-term commitment to service the export market. The strategy for creating the awareness, providing the necessary information and motivating firms into action includes:

* How-to-Export Type Workshops, Statewide
* Governor's International Marketing Award Program
* Informational Brochures
* Newsletter, Domestic Edition
* Newsletter, International Edition
* Exporter's Handbook
* Oregon International Trade Directory
* World Trade Week Activities
* International Trade Reference Library
* Trade Seminars, Aimed at Specific Markets/Topics
* Individualized Counseling and Assistance
* Public Speaking Appearances
* Legislative Review and Input
* Support of Trade-Related Organizations
* Support of International Business Studies Certificate Program

Strategy: International Industrial Recruitment

International industrial recruitment refers to attracting employment-generating investment from abroad. The emphasis should be on international firms setting up new manufacturing operations in the state in order to create employment opportunities for Oregonians. Because of a lack of funding, personnel and policy direction, an active international recruitment program has never been mounted. This program could help mark the beginning of the state's new aggressive posture towards developing the Oregon economy. The strategy for attracting new international firms to Oregon includes:

- International Industrial Recruitment Task Force--Established by the Oregon International Trade Committee, the task force would assist the Economic Development Department in developing the international industrial recruitment marketing strategy.
- Inventory--A current inventory of direct foreign investment in Oregon would be conducted.
- Develop Market Strategy--In conjunction with other state and local organizations, the International Trade Division will develop an overall marketing program, including the identification of target countries and industries and marketing themes. An overall strategy will also need to be considered.
- Marketing Tools--Promotional sales tools will need to be developed to assist in selling Oregon as an inventment location. Slide shows, foreign language brochures and technical seminars will need to be designed for an effective marketing effort.
- Direct Mail Campaign--The preliminary list of prospective firms will be narrowed using a direct mail campaign targeted to identify the high potential prospects.
- Targeted Advertising--On a joint basis with the private sector, the state's program will design and aim "Oregon" advertising at specific trade identified through the direct mail campaign. Advertising would be done in the native language of the target country.
- Recruitment Missions/Seminars--Included in the campaign should be at least one recruitment mission per year led by the Governor or other high-ranking state official. Technical seminars covering all aspects of investment in Oregon should be part of this mission.
- Prospect Follow-Up--Integral to this effort is an aggressive follow-up effort that clearly demonstrates the state's commitment to attracting foreign investment. This effort does not stop with the successful recruitment of a foreign firm. Once recruited, the prospect is turned over to appropriate organizations and the process of servicing the prospect begins in earnest.

Other Activities

- Feasibility Study on Establishing Overseas Representation--A cost/benefit analysis of establishing overseas representation will be performed. Such a study will weigh the probable costs against the benefits of having a permanent presence abroad for the purpose of promoting trade and Oregon as an investment and tourist destination.
- Report to the Governor on International Trade--The Oregon International Trade Committee should be asked to form

> a task force to identify the major issues affecting trade development, and to report back with specific recommendations within three months after appointment. Items to be included in the report should be: (1) proper level and source of funding trade development, (2) additional tools or incentives to encourage exports.

Cost-Sharing Policy

Trade development should be based on a partnership between government and industry. Government should provide the leadership and support which enable companies to compete in the international marketplace. Industry, likewise, must be prepared to take the risk and make the financial commitment necessary to succeed internationally.

Based on this premise of a government-industry partnership, the Economic Development Department will share with industry the cost of overseas promotions. It will provide (1) the staffing to organize the event, (2) half of the staff coordinator's expenses on the promotion, and (3) half of the overall organizational costs. The participating firms, on the other hand, provide (1) all of their travel expenses, (2) half of the coordinator's travel expenses during the event, and (3) at least half of the organizational costs. On a typical trade mission, the mission participant pays an $800-$1,000 participation fee, in addition to individual travel expenses.

International Trade Division

INTERNATIONAL BUSINESS DEVELOPMENT PLAN

TIME-LINE CHART

	1982	1983	1984	1985	1986	1987
Target Program						
o Survey Oregon Firms	—					
o Target Industry Identification	—					
o Company Calls	—	—	—	—	—	—
o Market Research	—	—	—	—	—	—
o Promotional Materials		—	—			
o Incoming Delegations	—	—	—	—	—	—
o Industry Technical Seminars	—	—	—	—	—	—
o Trade Missions	—	—	—	—	—	—
o Overseas Trade Exhibitions	—	—	—	—	—	—
o Oregon Trade Exhibitions	—	—	—	—	—	—
Awareness and Motivational Program						
o Export Workshops, Statewide	—	—	—	—	—	—
o Governor's International Marketing Award Program	—	—	—	—	—	—
o Informational Brochures	—	—	—	—	—	—
o Newsletter, Domestic	—	—	—	—	—	—
o Newsletter, International	—	—	—	—	—	—
o Exporter's Handbook	—					
o Oregon International Trade Directory	—		—		—	
o World Trade Week	—	—	—	—	—	—
o International Trade Library	—	—	—	—	—	—
o Trade Seminars	—	—	—	—	—	—
o Public Speaking Appearances	—	—	—	—	—	—
o Legislative Review and Input	—	—	—	—	—	—
o Support of Trade-Related Organizations	—	—	—	—	—	—
o Support International Business Certificate Program	—	—	—	—	—	—

	1982	1983	1984	1985	1986	1987
International Industrial Recruitment						
o Establish International Recruitment Task Force	—					
o Inventory	—					
o Develop Marketing Strategy	—					
o Marketing Tools	—	—				
o Direct Mail Campaign	—	—				
o Targeted Advertising		—	—	—	—	—
o Recruitment Missions		—	—	—	—	—
o Service Prospects	—	—	—	—	—	—
Other Activities						
o Feasibility Study on Overseas Representation		—				
o Report to the Governor on International Trade	—					

Mr. IRELAND. At this time we will hear from Mr. Porter, and then we will have some questions.

TESTIMONY OF LLOYD PORTER, DISTRICT DIRECTOR, PORTLAND DISTRICT OFFICE, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. PORTER. I hope my presence here this morning, Mr. Frengle, allowing me to take part of his time, will also attest to the fact we have a very close working relationship. I think the relationship between our two offices could be a model for the rest of the country.

The topic of your committee is extremely important to our agency and particularly to my office, because nearly every one of our clients are small business, small or medium-sized.

Dr. Cooper, a member of my district export council, a professor of economics at Lewis and Clark College, and I recently did a study on Oregon's exports. We found that Oregon exports on the average of about $3 billion a year. Of this we find the fastest growing industries are the commodities, or commodities in the State of Oregon are items attributed to small business. So small business is an important element in which we are definitely interested.

My office has three trained specialists that cover the State of Oregon. We also address the same questions Mr. Frengle does in different areas. The three questions as I see a small business looking at, if he is beginning to look at international trade, is, do I actually have a market out there? If so, where? Who is buying my commodity, and how do I export?

Mr. Frengle mentioned we are cosponsors of numerous seminars. In the past year we have established what we call a first Friday seminar. It is a seminar that our two agencies and the State Department of Agriculture now co-sponsor. We hold it the first Friday of every month. We have a group come in and talk about international trade. We have been averaging I think about 30 firms a month in that particular seminar series. We have sponsored in the past year a law seminar with the bar association, a barter countertrade seminar. We held an export trading company seminar here, which is one of the largest in the Nation. We had nearly 500 people at the seminar.

Realizing the problems we are having now, some of our exporters are having with export control, export administration relations, we have stepped up our activities of acquainting small businessmen with those regulations and have conducted several seminars on export control.

Mr. Frengle mentioned the newsletter which we jointly sponsor, which is another aid to making certain that what we are doing is not duplicative but supportive of each other's activities.

This fall we plan on putting on a seminar on marketing in the Philippines, one in Taiwan, one for India, and one for Canada. We will be bringing people from our offices overseas into the area to talk to businessmen firsthand about the markets in those particular areas.

Mr. Frengle serves on my district export council and is an adviser to my office, and I serve on his advisory committee, as adviser to his activities. We share each other's information in developing our annual plans to assure we have a complementary program.

Our office has worked with the Portland State University for the last 17 years in putting on seminars every fall involving that institution.

We have also worked with the U.S. National Bank in developing a program called the export planning for executives, utilizing students at the college. It is similar to the small business SBI program. We are now beginning to work with SBA in that particular program and have expanded that activity into the University of Oregon and Oregon State.

When the economy turned down here and we found many of our firms were without markets for their products, one of the things that our two agencies did is utilize our computer and develop a trade list of buyers of forest products equipment overseas.

We also did this for lumber. We were able to put this out and publish it and get it around and develop contacts for lumbering firms and manufacturers that had lost their domestic markets. I won't take the time to go into the many domestic programs, or the international programs that my particular agency offers on a national basis. It is in my presentation, and I am certain that most of you are familiar with it.

I would like to say that we are in the process of decentralizing our agency. For the first time since I have been with the Department of Commerce, which has been over 20 years, we have now been able to communicate directly with our overseas posts. We are decentralizing on the point where the field office now has direct communication with our overseas posts.

We have installed Telex equipment for daily communications. We now have sophisticated computer equipment in which we are in the process of registering firms in our area that are interested in international trade. It is going to enable us to get more information out to people about export opportunities and in turn get more information on Oregon firms to our posts overseas where that information can be distributed.

In closing, I would again like to call attention to the relationship that we have in the state of our two agencies. And I feel that we work very well together.

Thank you.

[Mr. Porter's prepared statement follows:]

PREPARED STATEMENT OF LLOYD R. PORTER, DISTRICT DIRECTOR, PORTLAND DISTRICT OFFICE, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Congressional Field Hearing to Explore Ways to Promote and Expand Small Business Exports, I am Lloyd R. Porter, District Director, Portland District Office for the International Trade Administration of the United States Department of Commerce. I am pleased to represent the International Trade Administration to speak with you about what we are doing for Oregon to encourage greater participation by small business in exporting.

The topic of this committee's hearing is of great importance to my agency. The role of small business in expanding Oregon's exports and improving our State's economy is increasing and must be recognized. Dr. Cooper, of Lewis and Clark College, and I recently did a study to determine the value of Oregon's exports. From this research we have determined that Oregon's exports in 1981 amounted to nearly $3 billion. This represented a 63% increase over the previous year but perhaps more important, it showed a growth in commodity classifications that are traditionally from Oregon's smaller firms. It showed a growth in industries that are highly competitive in international markets and therefore emphasized the need for developing programs that are supportive for these firms.

The Department of Commerce has programs to assist these firms and make it possible for more small businesses to go into exporting. My particular responsibility in the Portland District Office is to Oregon firms in exporting goods and services through our information and promotion programs and activities.

Our District Office consists of three trade specialists and two trade assistants, in addition to myself.

We realize that small businesses need assistance to determine how to begin an export program, what markets to enter, and where to go to find assistance. We have published a very useful tool to provide a step-by-step approach to exporting called, "A Basic Guide for Exporting". This can supplement the directions that the State has published and which we assist in distributing. I believe the State's text was originally published under a grant from our agency.

We also co-sponsor with the State, and hold in our office, a First Friday Seminar designed for the new exporter where we bring together a freight forwarder, a banker, an export manager along with our two agencies. In the past year we have also held an International Law Seminar in cooperation with the Oregon Bar Association; a Barter/Counter Trade Seminar, as well as several seminars dealing in particular markets.

Starting this Fall we have a series of seminars scheduled dealing with trading with the Philippines, Taiwan, India and Canada. We will also be conducting a Fall seminar series on exporting that we have been producing for the past twenty-one years with our District Export Council.

The Council is a group of private businessmen in the community that give freely of their time and expertise in assisting fellow Oregonians in learning more about how to export.

Seventeen years ago we joined with Portland State University and the U. S. National Bank to utilize graduate level or senior-level students to do market research for small firms looking at international markets.

We now offer this at the University of Oregon in Eugene and at Oregon State University in Corvallis.

Information Services

A variety of export information products and services are available to assist the Oregon business community in its efforts to export. These services are designed to respond to those expressing interest in penetrating and developing overseas markets:

- -- Detailed information about individual foreign customers and agents
- -- Lists that identify prospective agents, distributors and buyers:
- -- Specific export leads; and
- -- Research studies enabling Oregon companies to assess the marketability of their products in specific foreign countries.

World Trader Data Reports are individual reports on foreign firms, available at a cost of $40 each. They describe commercial activity, management, credit experience, commercial standing, size and reputation. Our overseas posts prepare the reports at the request of our firms.

Export Contact Lists are produced from a data base of over 140,000 foreign firms, which is prepared by the Foreign Commercial Service ($15 per customer plus 12 cents per name on the list). The lists are available in two forms: 1.) Export Mailing Lists, and 2.) Trade Lists. Export Mailing Lists are specialized lists tailored to the marketing needs of the United States exporter in terms of country, product and type of contact/form of interest, such as buyer, agent or distributor.

The Agent Distributor Service assists Oregon firms in locating agents and distributors abroad for a cost of $90 per market. Firms provide sales literature and catalogs, which Commercial Service officers use to identify up to six foreign firms who are interested and qualified to represent the firm's product.

Trade Opportunities Program delivers numerous specific export opportunities to subscribing Oregon firms each year. The leads include foreign government calls for bids, representation offers from private foreign firms, and direct sale opportunities to private foreign firms. The information is available via the TOP Notice Service ($37.50 for 50 leads plus $25 initial set up fee) and the weekly TOP Bulletin ($100/yr.).

New Product Information Service offers innovators of new products the chance to advertise in United States Embassy Commercial Newsletters worldwide for a cost of $40. Firms provide references, photos and literature describing their new product. The material is then translated into host country languages and delivered to Embassy commercial contacts. Selected products are also advertised on Voice of America Radio.

We recently established a Commercial Newsletter Pilot Project in Asia and Europe to enable small and medium-sized exporters to serve new markets on a regional basis with a minimum delay. Information on the company's product is published on a regional basis. Each copy of the newsletter contains a reader interest card on which a firm's products of interest may be marked and returned. The cost of this service is $25_ per region.

International Market Research (IMR) services are provided to assist exporters and potential exporters in selected industry sectors, and others having a need for and interest in overseas marketing information. IMR services include market reports prepared overseas by private firms under contract to ITA, or by FCS posts, and are based on research specifications prepared by ITA.

Automated Information Transfer System (AITS) is being implemented rapidly. We have sophisticated computer equipment installed in our District Offices and 37 Foreign Commercial posts overseas. Telex equipment has also been installed in our office for direct communications here and abroad. When fully developed by the end of 1983, and expanded to about 120 offices and posts, this system will increase our timeliness and productivity in processing and communicating information. AITS will greatly enhance Oregon companies' access to export information. In addition to facilitating access to the information and services, AITS will also link to private sector export-related data services. Continued enhancement of machine capabilities over the coming year will introduce new efficiencies into the delivery system not now possible and will permit more and new information products to be computer generated on a more timely basis.

These measures are just the beginnings of a new, greater commitment in meeting our firms' needs for export information.

Export Promotion Activities

A number of overseas promotion activities are available to assist small businesses to establish themselves in foreign markets:

One example of export promotion activities designed specifically to aid small businesses to obtain market exposure and develop contacts overseas at a minimal cost are the Catalog Exhibition and Video Catalog Exhibition Programs. Requiring ~~no~~ little expenditure of time or money by a company marketing executive, a firm that has no expertise in exporting can investigate the market for its products in one or more countries at low cost. We just learned from one Oregon firm last week that they had received 18 leads by participating in just one of these events.

The Commercial Service

A new streamlined management structure is one of the tools we have put in place to improve customer service to ~~exporting~~ the small businessmen. For improved administration and management we have directly linked our office with the overseas posts in 66 countries. We now operate under central management. We feel this will improve services to our Oregon firms and contribute to the State's export expansion efforts.

In addition to the Industry-organized, Government-approved trade missions (IOGA's) such as those that our State agency sponsors and we support through our overseas posts, we have also developed on a national basis our own specialized trade missions that are open to Oregon firms. It might be interesting to the committee to know that one of the first

IOGA missions developed in the U.S. was by the Western Wood Products Association here in Portland.

Conclusion

Thank you for allowing me to testify this morning. Let me close by saying that our office has a unique relationship here in the State of Oregon with the Department of Economic Development, the State Department of Agriculture and our office. We have developed a program whereby all three agencies work closely together to bring to Oregonians an export promotion program that is offered without duplication and is offered by a team in a manner we feel can best bring about an export action by the firm.

Mr. **Ireland**. Thank you, gentlemen.

Mr. Frengle, if you could just briefly touch for the record, and you touched on it some, what your budget is, what is the source of the funds, and really how is it organized as to numbers of people and activity.

Mr. **Frengle**. We have an eight-person staff. Of those eight people currently, until the end of September, five of those positions are federally funded, through two grants—one the Governor's CETA grant fund, and the other is a grant from the U.S. Department of Commerce, Small Business Export Assistance program, which was the first year of the program. It is continuing.

After October 1, we will be totally State-funded. Our budget is approximately $450,000 annually.

Mr. **Ireland**. Mr. Porter made reference to it, but also, just for our background and questioning, the nature of the area I am fully aware is small business-oriented. What, roughly, proportion of the activity would be small business-oriented?

Mr. **Frengle**. I would say roughly 90, 95 percent, in that area. We too work with the smaller and medium-sized companies. I think on a State basis 92 percent of the manufacturers employ fewer than 250 employees, which shows a concentration of small companies. Though actually a 250-employee company to us is really a large company, at least in this State. So I would say actually the average sized company may be in the range of 50, 75 employees.

Mr. **Ireland**. I have to tip my hat to you, and throw you in the growing number of State organizations and more local organizations that we find that are really doing something in the international trade for the people. With that in mind, it would seem to me that one of the ways that we ought to be looking at this from the congressional approach, is it not better done locally? By that, I mean a State or port authority, rather than mandating it through an agency such as the SBA.

If I could get you to comment again—you are spending a budget of $450,000, the international trade part that we instigated in 1980 of the SBA is roughly a million dollars direct outlay, another half a million dollars or a million and a half, purportedly 17 people. And we are not making much of a dent. Would that money in your view be better spent in an advocacy form, in helping organizations such as yours?

Mr. **Frengle.** That is a good question. I am personally not sure. I think there is a role both for the State and Federal Government. I think there are areas that each of us can be most effective in. I think at the Federal level, especially with the Commerce Department, with the network of overseas embassies and commercial representation, I don't think the State would ever get to the point where they could gather market intelligence and disseminate that to companies. That is a role of the Federal Government.

The whole area of export financing—I know that some States are looking at financing exports from their particular States. Typically, the States don't have the resources to do that.

It seems to me that with the tax benefit of exports primarily going to the Federal Government, that the export financing area is a role that should be carried out by the Federal Government and not the States. But I think that we have certainly a role in working with the companies in the area of providing information on the mechanics of trade and trying to get those companies overseas—trade missions, trade shows—those project kinds of things I think the States can be very effective in.

Mr. **Ireland.** I am struck—and this is obviously struck from an organization operation and not a personality question—but I am struck by the fact here we are trying to do something for small business, 90 to 95 of whom you touch, as you both said, is small business. You have a mandate and it reads, to the SBA, making available through the regional offices information from all of the Federal Government's various sources, some of which you mentioned—Commerce Department, Agriculture—as a job under this for the SBA. Yet nowhere in either of your comments of cooperation and everything else was there mention of the Small Business Administration, which has a mandate that is 2½, 3 years old, to be coordinating this kind of thing. Many of those things that are in that mandate are things you are doing, but it doesn't involve the SBA.

Obviously you are getting the job done without that. Maybe we ought to save our $1½ million.

Mr. **Frengle.** As mentioned in previous testimony, or came out in the testimony, SBA had one individual covering a whole region. That effort is centered out of the Seattle office. We are making do with what we can.

Mr. **Ireland.** If there were a lot more SBA people, they would actually not be providing you anything you are not getting now. Their mandate is to bring information from other parts of the Federal Government, however, you seem to feel adequately supplied along that line right now.

What could you look to the SBA to help you with, with the 95-percent small business?

Mr. **Frengle**. The whole area of export finance is an area of need. I think small companies have problems with obtaining preexport financing, working capital in order to put export deals together, especially the small companies. It would seem to me that both the SBA and the Eximbank should concentrate in those areas, to provide export financing, whether it is pre-export, working capital, or actually financing of overseas buyers to purchase U.S. products. I think that is the area that should be examined.

Mr. **Ireland**. In other words, you are saying you are meeting the information need. You don't need the help there. What you need is places to direct these firms, mostly small businesses, toward financing. You have long since passed the GATT information area.

Mr. **Porter**. Excuse me.

One of the complaints we get in our office is the one who wants to export is a small firm that if we start talking to them we find out the reason they are interested in international markets is they are doing poorly in domestic markets. That firm isn't going to do well in the international markets either.

The SBA has been extremely helpful to us in taking these firms that are having difficulty domestically and getting them well managed and consulting with them. We rely heavily on them in helping us with our management problems of people coming in thinking international trade is going to solve their problem and it doesn't. It is a scoreman talking to them or working with SBA is where it should be. We work very closely with SBA in that area. Also, SBA does cosponsor our seminars and participate in them.

Mr. **Ireland**. Mr. Wyden.

Mr. **Wyden**. Thank you, Mr. Chairman.

I think both of you gentlemen have made very good statements. My chairman as usual hits all the major kinds of issues. What we would like to do is maybe take off just for a couple of minutes in another direction and ask questions of both of you. Mr. Frengle, has there been any effort to isolate for Oregon what our key capital spending priorities are going to be to promote exports in the years ahead?

The reason I ask is, as you know, we are now going to make a massive effort to rebuild the country's infrastructure. It doesn't take very long for Washington to come up with a fancy new word for something—infrastructure is the new buzz word today. I really feel that is a fancy word for describing our industrial underbelly: the roads, the bridges, the sewers, and the transportation systems. I think you know the whole history of the Northwest has basically been that private investment follows public investment in the country's industrial infrastructure.

Now, I think the Oregon congressional delegation this year, for example, feels that our No. 1 capital spending priority is clearly the Bonneville lock, because the estimate is if we can get that Bonneville lock—my first bill in the last Congress, my first bill this year—we would generate $500 million worth of new private investment here in the metropolitan area in a very short period of time.

Has there been any effort by your office in conjunction with the Governor, who has been very supportive of these efforts as well, to try to put together a list of what our key capital spending priorities are going to be, say in the next 5 years, which is essentially what business is looking for. After we get the Bonneville lock, and I think we will get it in this session of Congress, what is going to be next? What are going to be the key capital spending priorities in infrastructure, say for the next 5 years, and are you trying to calculate that?

Mr. Frengle. Well, not exactly in that form. There has been a lot of discussion. Our division itself, the international trade division, is primarily involved in export promotion or development and not really the capital area. But we do have a ports division within the Department, and a maritime advisory committee that has been looking at a number of those issues, the Bonneville locks being one, the channel within the Columbia River, maintaining depth of the river at 40 feet. These are all issues that certainly do affect trade in Oregon.

I am not aware of a 5-year list exactly as you described, but it is something that has been discussed. I think it would be a very good suggestion to put together a list such as you describe that would do that. I would have to check and see exactly where we stand. I cannot tell you for sure at the moment.

Mr. Wyden. Why don't we see if we cannot begin to generate some discussion of that with the congressional delegation and with you folks and the Governor, because we don't want to miss the parade. It is pretty clear. The Congressional Budget Office said between now and the mid-1990's we are going to spend $3 trillion for infrastructure. That is going to key our ability to create exports. You will not have export investment if you don't have the industrial underbelly to cement it together.

I would very much like to work with all of you, whether it is your department, or your department, in conjunction with the Governor's office. There will probably be three or four agencies involved in this whole area. I would like to see us identify, whether it is 5 years or 3 years or what have you, what our key capital spending priorities are going to be because it is going to make it that much easier for us to go out and get them, for us to be able to say this is something Oregon agrees is going to be our big priority.

One other question for you. It is my understanding the Oregon Legislature approved $250,000 this week to set up a full-time overseas office for the State of Oregon. I am talking about Tokyo, or somewhere in that vicinity, to promote Oregon exports. Is that right?

Mr. Frengle. That is right. Actually to date, 22 States have offices overseas. What has happened is that the $250,000 you mentioned has been put aside in the State emergency board and the Department has been instructed to come back later with specific plans on how an overseas office would be structured, and more specifically, what the budget would be. So we expect to go back later this fall with recommendations to see that perhaps next spring, certainly next summer, an overseas office probably in the Far East would be opened, not only for development, but also for attracting industry to the State and tourism as well.

Mr. Wyden. We are looking forward to that, and I know we will get a quick signature from the Governor. He has been very supportive of the whole export effort.

One question for you, Mr. Porter. I was glad you brought up the Export Control Act. That way I didn't have to go chasing off on something you did not bring up. I think you highlighted my concerns—confusing regulations, the redtape. It really leads to a point I said earlier. I will be the very first guy when there is a real national security consideration to stand there and say, "No, this is not going to be an area where we will sell sensitive technology and jeopardize our national security." But after that, when the national security considerations aren't on the line, I want us to get those regulations to the point where the Government gets out of the way and we can really let the possibilities for export financing and export activity flourish.

How are we coming on trying to put together a compromise between your people and the Department of Defense? Are we making any headway in trying to get this compromise put together? I know that is what the debate is between Commerce and Defense, and that your people are involved in ongoing negotiations with the people over at the Department of Defense. I am just curious, how is it coming and what do you think the likely outcome is going to be?

Mr. Porter. Congressman, I knew that is what you were going to ask me about—export control—because it is of tremendous interest to all of us, and I know you have expressed your concern. My particular office has no responsibility in the debate, so I cannot respond to that.

What we have seen—there have been difficulties with our exporters having their exports detained. What we feel we can do here is to perhaps step up the education in export control and what regulations exist, and we have done that. But I am sorry, I cannot answer what is being done on a national basis.

Mr. Wyden. Any suggestions you can give us along the way on this subject, because I think it is just of enormous concern, particularly to exporters, and I find most of them are very much along the lines that I am philosophically, from the standpoint of national security, when it is necessary. But when it is not necessary, it ought to be a situation where Government gets out of the way. If you have suggestions, I guess, Mr. Chairman, our bill will be going to the floor pretty soon.

Mr. Ireland. It is indeed.

I would compliment Mr. Porter in his role in educating the people about this very matter and how much of it is national security and how much is just Government redtape interfering with what you are to get people to do. It is a real serious problem. We have a long legislative way to go, having people around the United States involved in it to understand it. It is going to be a big part of the solution.

Mr. Wyden. I just want to say that if, as the debate unfolds, you can give us your reaction to how various approaches would work, the committee is likely to pass out a bill, and depending on what the Rules Committee does, there will be a hundred different amendments. It will be a long, drawn out process. If as it unfolds, you can give us the reaction, as somebody at the grassroots level trying to make this work, your reaction of what various approaches would be. I agree with the chairman that much of what needs to be done is educational. We need to be educated as well.

Mr. **Porter**. Thank you.

One of the things we are facing here on the west coast in particular, is a time differential. Export control out of necessity is centralized in Washington. At 2 o'clock our time it is 5 o'clock in Washington. They have made some effort, a great deal of effort, to combat that by extending the hours of the Office of Export Control, developing 700 numbers. But I know under consideration is putting computer terminals on the west coast that would give us access to the processing and licensing information. I would hope that would be something we would be looking to when we are looking to the regulations.

Mr. **Wyden**. Is that kind of timing important for small business?

Mr. **Porter**. Yes.

Mr. **Wyden**. I gather that what happens when some of these investment opportunities come to the attention, say, of a small business person, they have to look at the regulations and try and figure out, would they be violating them, and they get in touch with you, and as a result, time becomes very important, because if you don't act quickly, the opportunity goes somewhere else.

Mr. **Porter**. That is right. We have our trade especially trained to assist them in identifying the controls and the regulations. Many times they might have to go to Washingtion, D.C., for further clarification on the particular technology that they have, and what our concerns are on that technology. Then time does become a factor. I am not certain how we solve that, but one thing would be to expand authority maybe on the west coast or provide computer terminals so we know the processing, where it stands.

Mr. **Wyden**. A first rate suggestion. We will follow up on it. If it just involves using new technology, nobody will disagree with that. Thank you.

Mr. **Ireland**. Gentlemen, we thank you.

I can't resist saying, when you talk about how many of your clients are small business, 90 or 95 percent, when a small business of 250 is a small business, you may be quite familiar with it. But it struck me, the statistics I saw the other day said that people do not realize that well over half of the Japanese export that we are so in awe of comes from Japanese firms of less than 250. So if we help our American small business, we have a real fertile field to work with.

The deputy executive director of the Port of Portland, Mr. James Church. Welcome. We are delighted you are here.

TESTIMONY OF I. JAMES CHURCH, DEPUTY EXECUTIVE DIRECTOR, PORT OF PORTLAND, OREG.

Mr. **Ireland**. You have furnished us with a very substantial statement here, for which we are in your debt. If you would be good enough to summarize it to suit yourself, we will pick up with our questions. We will put the full statement in the record.

Mr. **Church**. Thank you.

I am sure, as has been mentioned, as has been discussed, you are well aware that Oregon is a very small business State with over 90 percent of it being in small business.

Oregon is also an export State. Lumber, wood products, pulp and paper, agricultural products. The State's rapidly growing industries are all dependent on markets outside the State—and more and more outside the State means outside the United States.

Economic growth in Oregon depends on the basic export industries. Therefore, Oregon is very interested in increasing its ability to export. Oregon is also strategically located on the Pacific rim, and therefore, small businesses can gain in the market over there.

My comments are going to cover three areas: First a very short description of the port; second, our perspective in reference to why small businesses in the United States are not exporting; and finally, discuss the new Export Trading Company Act and the State legislation in Oregon which permits the port authorities to form export trading companies.

The Port of Portland is a municipal corporation. It is governed by a nine-member board appointed by the Governor. The Port district includes the three Oregon counties in the Portland metropolitan area. This area represents about one million people or half of the State's population.

The port was created in 1981 by the State legislature, originally for the purpose of dredging a channel for navigation of the Columbia River between Portland and the Pacific. The port now operates five marine terminals which handled roughly 6.6 million tons of cargo in 1982. We own and operate a ship repair yard, an international airport, and two general aviation airports. We also have roughly 3,000 acres of general industrial property available for sale or lease. We have about 700 employees and a $200 million budget. I think that description gives you a pretty good idea of the size and scope of the organization I work for.

One of the most interesting parts of working with a port authority, is that ports are in the middle of the export chain. We are exposed to, and have contact with, the domestic suppliers, domestic transportation firms, freight forwarders, banks, and EMC's who provide the necessary trade services and documentation to the U.S. shipper, and finally, we are involved with the foreign transportation and distribution network that moves the U.S. product to the end market.

The export chain is a busy one in Portland. In fact, it may surprise some of you to know that the Portland harbor, not Seattle, not Oakland/San Francisco, not Los Angeles/Long Beach, is the No. 1 port for export tonnage. In addition, the Oregon customs district is one of the few that has a favorable balance of trade.

Why do small businesses not export? Let me give you some comments in reference to what we think:

First, the lack of a foreign market. The first reason why small businesses may not export is simply there is not a sufficient market overseas. It should not be overlooked. Therefore, a lot of time and effort needs to be spent in up-front market analysis. Marketing plans must be addressed with the aspect of conducting the marketing and sales activity in different countries. This is an area which small businesses could use some assistance in identifying potential markets and developing marketing plans.

Next is in reference to the occupation of domestic markets. It is perceived that most of the small business people are involved in their present market, the domestic market. They understand the present markets and are often too busy today to deal with the problems and invest the time and effort to break into the export field. The port experience in working with these potential new shippers indicates that the first hurdle, pursuing the first effort, is a critical one. The up-front time and effort put in by the firm and the public and private organizations assisting their firm can be substantial. The payback will probably not come fast.

If, however, the firm's first experiences are positive ones in terms of control and comfort, the firm will often take the important step of pursuing permanent export markets.

Next is the complexity of exporting. The paperwork, the financing, the exchange rates, and more importantly, marketing strategies, carry a local new dimension for these small companies.

To successfully deal with these issues, the small businessman needs to put in considerable time and effort himself and/or seek outside assistance. The outside assistance brings a potential of loss of control which generally makes a small businessman very uncomfortable. With complexity comes perceived risk, for example risk of not being paid, risk of violating U.S. antitrust and foreign trade laws. What all of this complexity adds up to is that the perceived benefits are not worth the risk.

The Port of Portland recognizes international marketing and sales as a very complex undertaking and the cultural differences in marketing in Asian countries is even greater than moving a product to European markets. The port believes that the passage of the 1982 Export Trading Act was a positive step toward addressing this problem.

Also, there is a lack of awareness of the Government assistance programs that you have listened to this morning. We still find the small businessman is not knowledgeable and not aware of all of the Government assistance that is available to him, both from the Small Business Administration, the financial marketing assistance and other agencies. It is the port's experience in working with small businesses, that indicates this lack of awareness is real. I think this is another area where an ETC making use of Government assistance programs may be able to simplify the end product of the small business.

You have listened and discussed something about the financing issues this morning, and we likewise have some concerns with reference to how that assists the small business person. Again, this is an area, one more element of perceived risk and lack of control that can turn a small businessman away from exporting.

As has also been mentioned here this morning, you talked about the Eximbank programs and other Federal assistance. My main comment on this subject is simply that a small business must often get turned down twice in financing efforts before it can make use of the Exim program. For an existing importer-exporter, these turndowns may be accepted as necessary steps toward financing a potential profitable sale. To a new export firm, these turndowns cannot be good. They simply reinforce the tendency to shy away.

It would appear that steps to expand the use of the Eximbank's delegated authority would be a positive step for Oregon.

The next area I would like to briefly discuss is in reference to the Export Trading Act. On June 22, 1982, the Governor signed the export trading legislation. That gave port authorities in Oregon the power to form full export service trading companies. The bill passed both the Oregon House and Senate with overwhelming support. Passage of the bill gives ports in Oregon power to form the companies. The Port of Portland is considering forming one.

Our staff is examining alternatives, and they will be presented in the next 3 or 4 months. Public hearings will be held in order to solicit comments from the public, particularly the trading community, on how these export trading companies should be formed.

Our objectives have been outlined as creating jobs, increasing cargo volume, break even or better, and try to avoid the competition of the private sector wherever possible. We are trying to balance these objectives wherever possible.

In summary, the port is positive about the renewed interest and emphasis on the potential of small business exports, and we believe Oregon, as a small business State, as an exporting State, has a substantial untapped reserve for potential exporters. Tapping these potentials will produce jobs.

I think, sir, in summary, with my remarks I guess I would also add in reference to the comment of Congressman Wyden earlier on the area of continued capital in the area, I would like to reemphasize his comment in reference to the Bonneville Lock as our No. 1 priority for capital here, along with the mouth of the Columbia River, which has recently been authorized and appropriated. To add to that, one of the negative things we are very concerned about is the aspect of user charges on both shallow draft and deep draft as being a negative impact on this infrastructure, if allowed to proceed.

I would also indicate to you within the last few years, the Port of Portland undertook a comprehensive study to look at the capital needs we would have in the next 20 years, by trying to estimate and look at the flow of cargo through the Columbia-Snake system and the Portland Harbor. We indicate we need $250 million over the next 20 years in order to upgrade and modify our terminals to keep current with what increased growth is that we anticipate.

Thank you.

[Mr. Church's prepared statement follows:]

PREPARED STATEMENT OF I. JAMES CHURCH, DEPUTY EXECUTIVE DIRECTOR, PORT OF PORTLAND, OREG.

I am pleased to appear before this Subcommittee to discuss the subject of export promotion and small business.

I am sure Congressman Wyden has previously pointed out to members of the Subcommittee that Oregon is a very appropriate place to hold a hearing on export promotion and small business. And we fully agree with our Congressman. We agree for several reasons:

- First, Oregon is a "small business" state. Small businesses (250 employees or less) make up 99 percent of all Oregon businesses. They employ 75 to 80 percent of the state's labor force.

- Oregon is also an "export" state. Oregon's major industries--lumber and wood products, pulp and paper, agricultural products, and the state's rapidly growing electronics industry--are all dependent on markets outside the state. And more and more "outside the state" means outside the U.S. These industries cannot simply rely on domestic sales to keep them strong. They must export. Their future depends upon their ability to successfully compete in the world marketplace.

- Economic growth in Oregon depends upon the strength of these basic export industries. Yet these industries, especially the lumber and wood products industry, have been severely hurt by the recession. The performance level of Oregon's economy in 1982 was at the lowest level since the 1930s. Unemployment averaged 12 percent. A program that assists small businesses in these basic export industries has direct, substantial benefits on the Oregon economy.

- Finally, Oregon is strategically located on the Pacific Rim. Small businesses in Oregon can capitalize on their location close to the strong growth markets in Asia.

For these reasons, Oregon has a significant stake in the subject of export promotion and small businesses. We have a significant stake in seeing that national trade and transportation policies take into account the special opportunities and problems of the small businesses in Oregon which are trying to establish permanent export markets.

So again, we thank the Subcommittee, Mr. Chairman, and especially Congressman Wyden, for bringing your hearing to Oregon.

For the remainder of my brief comments, I will cover three topics.

- First, a very short description of the Port of Portland.

- Second, I'd like to provide the Port's perspective on the reasons why many small businesses in the United States are not exporting.

- Finally, I will discuss Export Trading Companies and the recent state legislation passed in Oregon allowing port authorities to form Export Trading Companies.

Description of the Port of Portland

The Port of Portland is a municipal corporation. It is governed by a nine-member board appointed by the Governor. The Port District includes the three Oregon counties in the Portland metropolitan area. This area represents about one million people or half of the state's population.

The Port was created in 1891 by the state legislature, originally for the purpose of dredging a channel for navigation of the Columbia River between Portland and the Pacific. The Port now operates five marine terminals which handled roughly 6.6 million tons of cargo in 1982. We own and operate a ship repair yard, an international airport, and two general aviation airports. We also have roughly 3,000 acres of general industrial property available for sale or lease.

We have about 700 employees and a $200 million budget. I think that description gives you a pretty good idea of the size and scope of the organization I work for.

One of the most interesting parts of working with a Port authority, is that ports are in the middle of the "export chain." We are exposed to, and have contact with, the domestic suppliers, domestic transportation firms, freight forwarders, banks and EMCs who provide the necessary trade services and documentation to the U.S. shipper, and finally, we are involved with the foreign transportation and distribution network that moves the U.S. product to the end market.

This "export chain" is a busy one in Portland. In fact, it may surprise some of you to know that the Portland harbor, not Seattle, not Oakland/San Franciso, not Los Angeles/Long Beach, is the number one Port for export tonnage. In addition, the Oregon Customs District is one of the few that has a favorable balance of trade.

Why More Small Businesses Do Not Export

Working with an organization in the middle of the export chain then results in one forming some opinions on how well that chain works. Recently, there has been considerable time and effort put into looking at why more small business do not export. As one reviews the literature, surveys and speeches on the subject, you find several explanations put forward. I would like to comment on these explanations.

1. Lack of a Foreign Market - The first reason why a small business may not export is simply that there is not a sufficient market overseas. This, of course, is a real issue. It should not be overlooked. In all of our efforts to help the small businesses, we should not be pushing everyone to export. We need to focus our efforts on working with and encouraging firms who have real export potential.

   The U.S. Department of Commerce estimates that there are 11,000 U.S. manufacturers with export potential who are not exporting. But to get these firms to the position where they are ready to export, where they can obtain the necessary export financing, the necessary up-front market analyses must be performed.

   Marketing plans must address the aspect of conducting marketing and sales activities in a different culture. Issues ranging from simple business customs to product and/or packaging modifications need to be identified and addressed up front. This is often the area where the small business could use some assistance--in identifying potential markets and developing marketing plans.

2. Lack of Interest - Why don't the small firms pursue this market analyses? One reason put forward is that many small businessmen are indifferent and/or lazy in their consideration of the potential for overseas sales. I disagree with this premise. At

least I can assure you that from the Port's experience the small business manager in Oregon is not lazy or indifferent toward pursuing a business opportunity.

3. Occupation with Domestic Markets - The perceived indifference is, in most cases, simply a preoccupation with serving their present market--the domestic market. They understand their present markets and are often too busy with today's problems to invest the time and effort to break into the export field. The Port's experience in working with potential new shippers indicates that this first hurdle--pursuing the first export effort--is a critical one. The up-front time and effort put in by the firm and the public and/or private organizations assisting that firm can be substantial. The pay back will probably not come fast. If, however, the firm's first experiences are positive ones in terms of control and comfort, the firm will often take the important step of pursuing permanent export markets.

4. Complexity of Exporting - This then leads to the next explanation, of why small businesses do not export, simply that conducting business on an international scale is much more complex than dealing with the domestic market. Paperwork, financing, exchange rates, and most importantly, marketing strategies carry a whole new dimension. To successfully deal with these issues, the small businessman needs to either put in considerable time and effort himself and/or seek outside assistance. And outside assistance brings the potential loss of control which generally makes a small businessman very uncomfortable.

With complexity comes perceived risks. Risks for example of not being paid, risks of violating U.S. anti-trust or foreign trade laws. What all of this complexity adds up to is the perceived benefits simply not being worth the risk.

The Port of Portland recognizes that international marketing and sales is a very complex undertaking. The cultural differences in marketing to Asian countries is even greater than moving a product to European markets. Thus, for Oregon firms, whose target markets are often Pacific Rim countries, the perceived complexity and risk may be greater than for a small businessman on the East Coast evaluating exports to Europe.

The Port believes that the passage of the 1982 Export Trading Company (ETC) Act was a positive step toward addressing this problem. As you know, before the passage of the Act, banking and anti-trust laws required that the various export services required by the small business be fragmented. The ETC Act will enable the formation of more trading companies offering full export services to the small business. This should greatly reduce the perceived complexity and risk.

5. Lack of Awareness of Government Assistance - A January 18, 1983, study by the U.S. General Accounting Office entitled "Efforts to Promote Exports by Small Non-Exporting Manufacturers" documents the general lack of awareness amongst small businesses of government assistance programs--financial and marketing assistance--available to them in their export efforts. The Port's experience in working with small businesses indicates this lack of awareness is real. I think this is another area where an ETC, making use of government assistance programs, may be able to "simplify" the end product to the small business.

6. Financing Issues - The Port of Portland does not become involved in the export financing arrangements of businesses moving cargo across our docks. There does appear to be a consensus amongst current government and academic studies, however, that many small businesses do face real difficulties as they attempt to arrange financing for their export sales.

An April 1982 study by Cresap, McCormick and Paget Inc., and First Washington Associations, which was commissioned by the New York Department of Commerce is one such study that discusses this issue.

The financing issue is just one more element of perceived risk nd lack of control that can turn a potential small business away from exporting.

I am sure your Committee is looking into the ExIm Bank's programs and other federal assistance programs. My main comment on this subject is simply that a small business must often get turned down twice in its financing efforts before it can make use of ExIm's programs. For an existing exporter, these "turn downs" may be accepted as necessary steps toward financing a potentially profitable sale. To the new-to-export firm, however, these turn downs cannot be good. They simply reinforce the tendency to shy away from exporting.

Finally, despite the best efforts of our Congressional delegation in Washington, D.C., and regional staffs of federal agencies, Washington, D.C. can sometimes appear to be a very long distance away from Oregon. It would appear that steps to expand the use of the ExIm Bank's delegated authority would be a positive step for Oregon. Under such a program, Banks, and perhaps certain Export Trading Companies, might be able to establish a loan guarantee line of credit with ExIm and then administer that credit on the local level. Such a locally-administered program might encourage more small businesses to make use of the ExIm programs.

Export Trading Companies

Let me close by briefly discussing the Oregon Ports Export Trading Company legislation signed by Governor Atiyeh on June 22, 1982.

That legislation gave Port authorities in Oregon the power to form full service export trading companies. Port-formed ETCs will be able to make full use of the 1982 Federal Export Trading Company Act.

The bill passed both the Oregon House and Senate with overwhelming support. I believe this support demonstrates Oregon's recognition of the importance of promoting exports in Oregon--especially by small businesses.

Passage of the bill gives ports in Oregon the ability to form ETCs. The Port of Portland is considering forming one. Port staff is examining alternative structures and markets for a Port ETC. These will be reviewed by the Port Commission the next 2 to 3 months. Public hearings to solicit input from the public, particularly the trade community, would be part of the process to aid the Commission in any decision they might reach on whether to form an ETC or not.

The Port Commission has outlined four objectives the Port would have in forming an Export Trading Company:

- Job creation;
- Increased cargo volume;
- Break even or better;
- Avoid competition with the private sector--but to increase our ability to compete with other West Coast ports.

All of these objectives must be balanced. But it is the job creation, through increasing the level of export sales by small Oregon businesses, which is the primary focus of our efforts.

Consistent with that job creation objective, the Port has applied for a grant from the U.S. Department of Commerce to establish a Small Business International Marketing Program. The grant is part of the Department's Small Business Export Development Assistance Program.

Under the program, the Port would work with small Oregon businesses who are presently not exporting to establish export markets. The program would provide general counseling on the many facets of exporting, marketing analysis assistance, and help in establishing overseas contacts. The Port would make use of its overseas offices in carrying out these efforts. The Department of Commerce will be selecting a small number of programs for funding in late August/early September. We understand the competition will be very steep. If the Port's application is recommended for funding, the grant offer will be brought to the Port Commission for their consideration.

We see this program as being in important addition to the Port's economic development efforts. And we believe the program could serve as a building block for further analysis/refinement of the formation of a Port of Portland Export Trading Company.

Closing

The Port is positive about the renewed interest and emphasis on the potential of small business exports. We believe Oregon, as a small business state, as an exporting state, has a substantial untapped reserve of potential exporters. Tapping this potential will produce jobs.

The Port is examining its efforts/programs related to assisting the new-to-export firms. With the Oregon Port ETC legislation in place, the Port is considering forming an ETC. The Port has applied for the Department of Commerce grant to establish a Small Business International Marketing Program. The Port's objectives in pursuing these efforts is to create new jobs. If our efforts can result in small Oregon businesses entering the export market, all the actors of the export chain--EMCs, freight forwarders, Port authorities--will benefit. We may be able to accomplish these objectives without forming an export trading company. If it appears, however, that a Port ETC is in the best interest of maximizing the creation of jobs, I believe you will see the Port moving in that direction.

Whether the Port Commission decides to form an Export Trading Company at this time or not, we believe the formation of ETCs in general should be a positive step forward in increasing the amount of exports from small businesses. Full service ETCs should be able to reduce the level of complexity and risk to the small business, they should be able to conduct the necessary market analyses, and finally be capable of arranging the financing to make exporting much more feasible to small businesses.

Finally, we believe federal assistance such as the Department of Commerce grant program to establish Small Business International Marketing Programs at the local and state level are very important. Organizations, such as the Oregon Economic Development Department, Portland State University, who you will be hearing from later this morning, and the Port of Portland have experience, expertise, and contacts that can help the new-to-market, new-to-export small business.

The renewed emphasis on small businesses will, however, require new monies in a time when many of these local and state organizations can least afford it. Assistance from the federal government appears to be consistent with the national objectives for promoting international trade amongst small businesses.

I thank you again for the opportunity to appear before your Subcommittee.

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Mr. Ireland. Mr. Church, thank you for a fine statement. I guess you have seen in my questions up to now what is being done by your port authority and the port authorities around the country and some of the State governments. It is really outstanding and perhaps it is the way to go.

I turn to my colleague here and ask him if he has any questions at this point.

Mr. Wyden. I do, just a couple, Mr. *Chairman*.

Mr. Church, thank you for an excellent statement. Let me come back to the question of the capital spending priorities, because I think you have heard my views that this can be so much of the equation for promoting growth, the lock and the mouth of the Columbia River are two big projects now. But are you looking 5 years out for what our key capital spending priorities are going to be?

Again the Congressional Budget Office says we are going to spend $3 trillion between now and the mid-1990's. I just don't want Oregon to miss the parade. I want us to be thinking not just this year, but also down the road a little bit. It is my understanding this is something you are all starting to do. It is almost like an inventory, infrastructure inventory, of what our priorities are going to be for the next few years. Is that something you are doing?

Mr. Church. As I indicated, we have finished that in reference to the port facilities, per se. We have also recently completed, along with the other 26 ports in the Columbia-Snake system a Columbia-Snake inventory and a look at where we think those ports are going to go as a system.

Mr. Wyden. Excuse me. How many years out is that? I think that is great. That is exactly what we want to be thinking.

Mr. Church. I think the system is in a 5-, 10-, 20-year program, Congressman.

Mr. Wyden. I think that is just great. If you could get that to Ray Wilkeson or myself, I would really like to see it. I think that is exactly what we have to be doing. I think you heard me talk about that with Doug Frengle. My concern is not only is this money going to be spent, but I think our citizens want to make sure we spend it effectively.

The city of Gresham is not going to build the Bonneville Lock project. They are going to be involved in a number of infrastructure projects. We have to determine what is appropriate for cities to be doing and what is appropriate for ports to be doing, for the State to be doing. Really, the only way we can figure out who ought to be doing what is to have this kind of inventory of projects. It sounds like you have developed exactly what it is I want to see. I will look forward to getting it.

One other question on the waterway user fee. My position is generally reflective of yours, and our key exporters and traders here, is that waterway user fees would really be bad news for us. It probably doesn't hurt the Port of New York all that much, because they have their projects done. I will say in deference to our absent New York coalition we will try to work out some equitable arguments between New York and Portland to see they are treated fairly.

How would you like to see the waterway user fee situation handled in Congress this year? For example, some people have said that you have to accept some kind of user fee proposal in order to get any projects built. They have tried to tie the Bonneville Lock to some kind of user fee legislation. When you talk to some of our people they say they just cannot take any fees this year "because we are still hit hard by the recession."

What is the port's feeling about how this ought to be handled? Could we accept any fees this year and not hurt commerce? What is your feeling? I go into the debate, I think you know, with the position that any kind of additional fees would hurt us a lot right now.

Mr. CHURCH. We agree with that. As you know, we are in a double issue here between the shallow draft, which would affect the Bonneville, and then also the deep draft. And both of those issues would be very detrimental to us as we are trying to come out of the economic recession we have had and have growth at this time.

Mr. WYDEN. What if they put the $64,000 question in front of us—Senator Hatfield, myself—you don't get the Bonneville Lock unless you accept some user fee legislation?

Mr. CHURCH. Then we would like Senator Hatfield's and your legislation.

Mr. WYDEN. That is great. That makes my day. We hope to get those fellows from New York and elsewhere to do it. If they put it to us in just that way—Chairman Roe on the Water Subcommittee is trying to tie projects to financing. Our goal would be to get out of there without any fees, and then we have to have something as low as possible.

Thank you, Mr. Chairman.

Mr. IRELAND. Thank you, Mr. Church.

If we could, now we will hear from Mr. Sam Naito, of Norcrest China Co., in Portland, Oreg.

TESTIMONY OF SAMUEL NAITO, VICE PRESIDENT, NORCREST CHINA CO., MEMBER, OREGON TRANSPORTATION COMMISSION, AND PAST COMMISSIONER, PORT OF PORTLAND, OREG.

Mr. IRELAND. We are delighted to have you. We heard a lot from all the public helpers, including the two of us up here. We are delighted to have you here.

Mr. NAITO. Good morning, Mr. Chairman, and Congressman Wyden.

My name is Samuel Naito, vice president of Norcrest China Co., a member of the Oregon Transportation Commission and past commissioner of the Port of Portland. I have been in international trade all my life and have traveled abroad very frequently. It is an honor and privilege to be asked to testify before this prestigious committee.

I am not an exporter, I am an importer so you may wonder why I am here promoting export trade. The reason is partly a selfish one. I am deeply concerned about our negative trade balance. Not only is it affecting our economy but it always raises the ugly head of protectionism, which means higher duties, quotas and import restrictions. Of course, this would have a very negative effect on my business.

But away from my personal bias, I think that increasing our export is probably the most important key to stabilizing our economy. We have a horrendous deficit trade balance which we are trying to correct by negative means, like increasing duties, setting quotas and restricting imports.

These negative actions will result in retaliation and affect our agricultural and industrial base which depends so much on exports. Why not take a positive approach by increasing our exports dramatically, thereby reducing the deficit trade balance? At the same time, we would stabilize our economic base and increase our employment rate.

You hear constantly the words "unfair trade practices" about overseas countries. It appears that in most cases foreign governments are trying to help certain exporting businesses expand at a nominal cost to the country. In my opinion, most times this isn't unfair, merely practical. This country should do the same.

I think we must turn to hundreds of thousands of small businesses and encourage them to export. In my opinion, this will lead us back to the balanced trade situation. This country has never been truly export minded. We didn't need to export since our domestic market consumed all that we produced. However, foreign countries had to export since their domestic demand could not meet their productive capacity. After serious effort, they now produce goods that often fit our needs better than American products do. We need to develop a similar sensitivity and I think you gentlemen can offer plans and incentives to bring that about.

When small business hears the words "international trade" they become apprehensive since it is unknown, mysterious, and hard to comprehend. Here is an opportunity for Congress to take the leadership and educate and guide the typical small businessperson to the lucrative export field. I have a few suggestions how Congress can help small business enter the export business or increase their exports. We need to give them concrete incentives. Many of these are not new but deserve repeating. Here are some forms of direct financial aid that could be given to small businesspersons who are entering their export trade or are already in it, but need assistance to survive:

One, allow rapid depreciation or tax credits for equipment needed to manufacture goods for export. For example, most of the world is on the metric system, therefore metric tools are needed.

Two, set up low interest revolving short term loan funds to finance export trade at reasonable interest rates.

Three, grant tax exemptions on income earned on increased export trade for the first 3 years.

Four, set up an agency which can guarantee payment on exported goods financed by a cooperative self-insurance plan.

Five, give financial rewards to small businesspersons who succeed in increasing export trade by substantial amount.

Here are my suggestions which are not direct financial aid but still will be very helpful:

One, assist a small businessperson by conducting market analysis of promising products in order to fit the overseas requirements.

Two, invite groups of interested and experienced buyers from overseas to meet with our small businesspersons. Part of their expenses could be paid by the Government. They will be the best advisers as to the kind of merchandise that small business should manufacture to sell overseas.

Three, promote and finance large exhibits overseas of goods made and sold by small businesses. Heavy advance publicity must be given before each exhibit.

Four, advertise and promote in the media of every country all the exportable goods sold there by small American businesses.

Five, educate the small businessperson in the language of his customer. Ability to communicate in the customer's language is a great selling tool. Also, he should be briefed on different customs, history, and culture of the country that he is going to do business with.

Six, promote and help finance large export fairs, at least twice a year in different major cities. The promotion of such fairs must be done very extensively worldwide. Export fairs in other countries have been very successful. There is no reason why we can't have the world's biggest export fair.

Seven, give matching grants to States willing to build permanent export exhibit halls open year round.

Eight, encourage each State to print a comprehensive catalog of the small business export products manufactured and distribute these to U.S. Consulate offices and foreign chambers of commerce. Give an award to the State with the best catalog produced.

Nine, train all our Consulate and Embassy employees to be aware of our export products. It is surprising how little they know about products we export or how little they do to promote export trade. We should insist that a certain portion of their time be spent in promoting American products.

Ten, send an increasing number of trade missions, each one headed by a veteran exporter and political expert. We should subsidize part of the expenses. Before each mission goes, a great deal of missionary work should be completed so that actual business can be done when a mission arrives. Large amounts of advance publicity should be placed in local equivalents of the Wall Street Journal, financed with public funds.

I know that there are many other suggestions given by other interested parties, but I do hope that a few of the suggestions I have given can be considered seriously.

I am sure you are now waiting for my suggestions about how we can pay for all these generous incentives. I am certain that you have often been told that good programs must be afforded for the good of the country. In this case, I believe it is easy to estimate now they would pay for themselves. Our export trade is now a little over 10 percent of the GNP compared to 30 percent in many foreign nations. If we could get halfway to those figures or to 20 percent, we would see our GNP advance by $300 billion or more. On the average, the Government gets a little more than 20 percent of each additional dollar of GNP giving something between $50 and $75 billion in additional revenues. Certainly, these programs would cost less than that and they might eventually be even more successful in attracting foreign sales.

May I take this opportunity to express my strong opposition to the domestic content bill, H.R. 1234, which is going to be considered by Congress. It is a law which attacks each and every consumer's pocketbook and limits the consumer's freedom of choice. It will give a virtual monopoly to the American auto industry, but only a temporary one, unless we subsidize Detroit forever. We will end up being forced to buy fat cars which give gas mileage of 8 miles a gallon and cost over $40,000, and fall apart in 1 year. Also, it will bring on retaliation at a crucial time when we are trying to increase our export business. It is a bill which will seriously damage our economy, therefore, it must be defeated.

I am appalled at the low priority export trade has been given in this country, both by business and by Government. In most other countries export trade is given top priority and every effort is given by the Government to help them. The only way export trade can be expanded is to take steps that other countries do to bring back a balance of trade to the positive side.

Mr. **Ireland**. Well, Mr. Naito, I don't know what else to do but just stand up and applaud. I don't know whether you had in mind indulging the chairman or not, but you sure did. I don't think there is any question that protectionism is not going to get us anywhere.

You succinctly outlined the opportunity for small business. Many of the suggestions that you have supplied, what to do to get us moving, are in my view absolutely correct. Mr. Wyden and I have worked on many of them, but let me say just to make you feel a little bit better about it, we have in this era of austerity been able, in the House Small Business legislation that will come before the Congress to put funds in to do a number of the things on a small scale that you have spoken about, not the least of which is to get us into the promotion through the SBA of overseas participation.

You have said it well. I would say one last thing before I turn it over to Mr. Wyden. I couldn't agree more with you about the domestic content legislation. I have opposed it all along. I think Mr. Wyden has a story to tell along that line. It is not the kind of thing that is going to help us in the long run. I admire your willingness to step up and be counted in that department.

Mr. **Wyden**. Thank you, Mr. Chairman.

I am with the chairman in the cheering section, Sam, for your very excellent testimony. What you really highlight, too, because you are the first importer to testify today, is that trade is a two-way street. If we are going to become an international trading hub, you have to make it possible for people to come in, because when they come in, almost always they are going to look for something to take out. That is just commonsense. I think your testimony really highlights it.

One area I would like to touch on is our relation with the Customs Service. I think you know I spend an awful lot of my time trying to make sure there is no way any downgrading of customs services here in Portland or even a possible closure that has been discussed. I had an amendment on the appropriations bill last year that would prohibit it, and we got, as you know, last week a commitment from the customs people that they would just put it off indefinitely, and take us off the chopping block.

I would like to know a little more background about why this is so important to you as a major trader. Do you have direct personal contact on a regular basis with the customs people?

Mr. NAITO. That is correct. Not just myself, but many other importers are very concerned. When we have a limited service here, it means if they are going to transfer the services up to Seattle, it means we have to go to Seattle to discuss different problems. Practically on an ongoing basis, people like the custom brokers who deal with many importers have daily problems to discuss with the Customs, what they call import specialists.

My staff is always calling up the import specialist and asking, how do we classify this product, and is this product the right kind of thing that we can bring in. All those things are very important to know. But if it is located in Seattle, it means going up there personally to do these things. It would slow it down.

The most important thing that we have to realize is that it would chase away a lot of the businesses that would like to open up in Portland, in Oregon, up to Seattle or down to San Francisco or Los Angeles, some other cities, and that would just affect our economy here locally.

The other matter is the fact, for example, steamship companies, the steamship companies would stop sending their ships up the river there, if the bureau here was limited in their activities, because they will say there are not going to be any more importers here that would be using our services, they will all be moved up to Seattle. So it would be a great impact on the economy of Oregon.

Mr. WYDEN. I appreciate your outlining some of the specific logistical problems that would happen if our customs office was ever downgraded. I think the letter we got about 10 days ago, we have put off the chopping block. I assure you and other importers and exporters, I will continue to be very vigilant in terms of this. We are going to try, when the Treasury and Customs bill comes up again in Congress, to write into the bill a specific prohibition against any downgrading.

I think the letter that we got last week from the Customs Service gave us some good protection, but we are going to lock it into law as well.

Mr. NAITO. Congressman, I want to express my appreciation for the work you have done on it. I think it was an outstanding job. All your effort has resulted in they are not downgrading the local customs.

One thing I want to say to the chairman about SBA loans. I was quite surprised, sitting back there listening, that most people do not know that there is a loan situation where anyone involved in exporting can borrow very easily. That is the first time I ever heard about it. So I was educated today by the chairman.

Mr. IRELAND. Well, I appreciate that. I would say we are talking about the knowledge of what goes on in the export field. We have not so much knowledge in the financing available to the American domestic scene. I think one of our problems that you may want to contemplate concerning the overall small business approach in America, if you were to take all of the small business loans made in America over the 30-year history of the SBA, you will find we have touched less than 1 percent of small businesses in America.

We need to do something different somewhere. Some of it is not awareness, some of it is targeting. Just as you made the analysis of the export area, it, too, needs some help.

Mr. Naito. I agree with you that SBA should probably try to staff their local office with a larger number of those people who are experts in international trade, especially export trade, to help us in this area.

Thank you.

Mr. Ireland. Mr. Wyden.

Mr. Wyden. Thank you.

I have just one question. One of the things that Ray and I have been thinking about over the last few months was the idea of seeing if it would be possible to create a Columbia River Customs District. It grows out of the problem, Boise is now shipping through Chicago, Wyoming, and South Dakota. What we would do under this kind of approach is, first, no area in the Northwest would lose an office, Northwest port. Seattle would not give theirs up. But that perhaps Portland could be designated as the Columbia River customs district so that Boise, for example, could come through our area.

I spoke with Senator Abdnor of South Dakota, who is interested in this kind of approach, that would protect every Northwest office now existing, but Portland could, from this point on, be declared the Columbia River customs district office and could pick up some opportunities from Boise and Wyoming.

Mr. Naito. I think that is a great idea. I think that would help stabilize the situation here. When you say just Portland, people think in terms of just a very small area. If we can cover the entire Columbia basin area, as far as Boise and other parts, even to Montana, I think it would help a great deal to have a basis on which we can insist that we have this Customs district stay here.

Mr. Wyden. Thank you very much.

Thank you, Mr. Chairman.

Mr. Ireland. Thank you.

Our next two witnesses, I understand, Mr. Bogue and Mr. Manning, are both here.

Gentlemen, welcome.

TESTIMONY OF PHILIP R. BOGUE, ASSISTANT TO THE PRESIDENT FOR UNIVERSITY RELATIONS, PORTLAND STATE UNIVERSITY, ACCOMPANIED BY DR. JAMES MANNING

Mr. Ireland. As happens with all congressional hearings, you have to listen to a lot before you get your shot. I am going to ask you, as I did others since we are moving toward a 12:30 deadline. I want to give everybody, No. 1, a chance to be heard. But No. 2, I want to assure everybody, that we will not only accept all testimony that someone wants to submit now or within the next week or so but also additional thoughts they may want to supply. We are here to get the information and not to work on the deadline.

With that introduction, let me ask you to hit the high spots.

Mr. Bogue. Mr. Chairman, I am Phil Bogue. I am assistant to the president of Portland State University for University Relations. I should say that I am the new kid on the block in academia. This is following a 32-year career with one of the larger international accounting firms. University relations at State universities is really a euphemism for lobbying and fund raising, but I have been spending most of my time in recent months developing an international trade and commerce institute.

It is amazing how little higher education has done in this area. The timing is perfect here at the university. This institute we are developing will be similar to an institute at the University of New Mexico which was developed by the then president, who is now the chancellor of higher education in Oregon.

The institute there concentrated on Latin and South America. Our institute will concentrate on the Far East, initially Japan, China, and Korea. Just very briefly, it is a three-pronged program. One is a quality academic program, leading to bachelors and masters degrees in international trade. Two will be a continuing education program for people who want to get into international trade or are currently in it. We foresee one-day seminars up to 2-month crash courses similar to Peace Corps type training for people who really want to get into international trade.

Third, there is a great need for applied research in that area. We expect to get into that heavily.

The program is unique. We don't know of any, at least in the Western States, that compares with it.

The one part of the program I would like to get into in a little bit of detail with you relates specifically to small and medium-sized firms located throughout the State. The program is based on a limited but very successful program of direct assistance to these kinds of companies which has existed at the university for several years.

Dr. Manning is here because he has coordinated and been a leader in that program. He is here to answer specific questions. Many successful Oregon exporters were introduced to their export activities with participation in this program. Several, as a matter of fact, have received the Presidential Excellence Award in Exporting over the years.

Just very briefly, what this program will do is it will have individually designed and tailored export plans to be developed for at least 50 selected Oregon firms each year with international potential which is currently not met. There are several strategies in place to accomplish this kind of objective.

An internship program for graduates and undergraduate students in Oregon interested in gaining international trade experience and academic credit will be established. Market analysis and international research data for selected client firms desirous of expanding their international programs and activities will be conducted by selected interns and all research will be supervised by experts on the faculty or consulting experts in the community.

The firms deemed appropriate to get involved in the program for an indepth marketing study will receive intensive counseling related to the feasibility of their entrance into the export market. The counseling will be provided by very senior certificate students, international business majors, under the direct supervision of faculty people and export specialists.

This program has proven in the past to be very successful. We are delighted to be able to expand the program to a statewide program with the new institute. The new institute contemplates an additional budget of the university of approximately $500,000 for the biennium. Half of that has been provided by a specific line item by our State legislature, which we are very pleased with. The other half will be raised from local business concerns and other sources.

I think that summarizes my statement.

[Mr. Bogue's prepared statement, with attachments, follows:]

PREPARED STATEMENT OF PHILIP R. BOGUE, ASSISTANT TO THE PRESIDENT FOR UNIVERSITY RELATIONS, PORTLAND STATE UNIVERSITY

For many years Portland State University has recognized a need for the business community in the Pacific Northwest to expand export markets as an integral part of economic development in the area. The need has become even more evident during the recent deep recession in the forest products industry in the region. It is now widely accepted that this industry has lost permanently a large part of its domestic markets which enabled it to prosper during the '60's and '70's. This has resulted from high transportation costs, the tremendous growth of the industry in the Southeast, substitute products, and a number of other reasons. It appears that the only approach to restoring former levels of production will be to develop export markets aggressively, mainly in the Pacific Rim countries. Another major industry in the region, of course, is agriculture. Export markets for this industry are fairly well developed but the potential for expanding such markets is unlimited.

Young and emerging companies, particularly in the hi-tech areas, are becoming a significant factor in the economy of the Portland Metropolitan area. A partner of a large New York-based venture capital firm told me just last month that he looks to this area as a major source of venture capital deals during the '80's. Such companies, almost without exception, are now or will be developing export markets for their highly sophisticated products.

The "Strategic Plan for the Oregon State System of Higher Education, 1983-87", recently adopted by the State Board of Higher Education, recommends the establishment of an Asian studies center at Portland State University (PSU) which "should place a strong emphasis on problems and service programs related to trade, tourism, and business activity". Subsequently, the Education Subcommittee of the Joint Committee on Ways and Means of the State Legislature "added $230,000 to the budget to provide solid funding for an International Trade and Commerce Institute to be located at PSU . . .".

The University's existing strengths in international education provide a sound foundation on which to build such an institute. Properly developed, the Institute will provide (1) quality academic programs for college students interested in international business, East Asian languages, and Area Studies, (2) continuing education for persons employed in international business or allied fields, and (3) applied research and information services for the business community.

The International Trade and Commerce Institute will concentrate on a variety of activities and functions. Specifically, it will:

1. Establish a focus to and coordination of existing and planned educational programs that relate to international business activity. The Institute will work with Portland State University language and area studies programs to establish coherent educational direction for students interested in international business.

2. Establish a quality program for continuing education and training of individuals within business, government, and other organizations who wish to develop expertise in various aspects of international business.

3. Establish a quality management development seminar series for those professionals in international business who must keep abreast

of current developments in the area. Special emphasis may be given here to the results of research activities. Programs may also be developed for managers of foreign firms addressing market, legislative, and managerial issues of the regional economy.

4. Establish a comprehensive data base and information service on Pacific Northwest regional international business activity. It is essential that the Institute be a major focus for the collection and dissemination of information related to regional international activity. In addition to area businesses and government agencies, this service could also be of benefit to international firms interested in trade or investment opportunities in Oregon. Such activities would be established in coordination with the Economic Development Council.

5. Focus resources and support services for the encouragement of research projects in international business. The thrust of the research activity will be on applied projects as they relate to regional international trade and investment activities. Such research is essential for the Institute to contribute to the long-run economic development of the region

6. Act as a catalyst for future programs in international trade and investment.

I would like to describe now the program of the proposed Institute which is probably of the most interest to the subcommittee. This program is directed toward small to medium-sized firms located throughout the State of Oregon and southwest Washington with perceived export potential not currently being met. The program is based on a limited but very successful program of direct assistance to such companies which has existed at the University for several years. Many successful Oregon exporters were introduced to their export activities with their participation in this program. A greatly expanded program is described in detail in material attached to my testimony which was prepared in connection with a grant request to the Small Business Export Development Assistance Program of the U. S. Department of Commerce submitted recently.

TO
U.S. HOUSE OF REPRESENTATIVES
SMALL BUSINESS SUBCOMMITTEE ON EXPORT

A PROPOSED OUTREACH PROGRAM TO BE OFFERED TO SMALL BUSINESSES IN THE STATE OF OREGON

Prepared by Portland State University
School of Business Administration

July, 1983

SMALL BUSINESS EXPORT DEVELOPMENT ASSISTANCE PROGRAM
DESCRIPTION OF PROPOSED ACTIVITIES

PROGRAM:

Portland State University has been designated by the Oregon State System of Higher Education as the institution to be charged with the responsibility of developing a comprehensive program in international business. Currently, this program is being designed and appropriate legislation introduced for funding through the Oregon General Fund. In addition, broad-based community support is being solicited. This opportunity to include application for small business export development as an integral part of a program to be launched at Portland State University provides the following major opportunities:

1. To initiate this program much earlier than would normally be the case.

2. To demonstrate that Portland State University can make a positive and measurable contribution to the economic growth and development of the international sector of our economy.

3. To design and administer a cost-effective, creative program that has immediate and measurable impact in terms of providing jobs, sales and stability to small and medium-sized regional businesses.

The four-fold, central thrust of the proposed program are as follows:

1. Individually-designed and tailored export plans to be developed for at least 50 selected Oregon firms with an international potential currently not being met; the market value of these proposed 50 studies is conservatively estimated to be between $250,000 to $500,000.

2. Special reports to be prepared for appropriate distribution detailing export trends by selected industries important to the Oregon region; international market area analysis to be conducted for selected Pacific Rim target areas; and appropriate international procedures to be recorded and circulated to appropriate firms.

3. Seminars, workshops and conferences to be held periodically throughout the state of Oregon.

4. Program of public awareness on the importance and significance of international business to the Oregon economy to be designed, developed and delivered to the business and general community in the important regions of Oregon.

Although we cannot measure in specific dollar amounts the value of items #2,#3 and #4, we are confident that these areas, when taken into consideration with item #1, will satisfactorily illustrate the worthiness and contribution of this program to the stated goals of the granting organization.

This proposal seeks to expand the economic base for the state of Oregon by developing specific programs to increase exports of Oregon goods and services for international markets, as follows:

PROGRAM (CONTINUED)

1. To provide direct assistance to small and medium-sized firms located throughout the state of Oregon and southern Washington with necessary market information and tailored programs to enable these firms to move goods and services into the international markets.

2. To establish identifiable training and educational resources for business practitioners who wish to broaden their knowledge, skills and abilities in the conduct of international business.

3. To provide business and industry a permanent office from which information and knowledge can be obtained regarding the fundamentals of international business, procedures and assistance in evaluating the efficacy of making long-term commitments to the international markets.

4. To act as a catalyst for future programming and development through courses, workshops, seminars, conferences, institutes and private consultation services necessary to develop and maintain profitable export marketing programs for client firms.[1]

5. To establish an information resource base containing regional information and trade data designed specifically for the requirements of client firms with special emphasis on target countries located in the Pacific Rim trading area.

6. To establish working relations with foreign governmental agencies, counselor corps and trade associations committed to fostering trade and economic development between the Oregon region and selected high-potential Pacific Rim trading countries.

7. To provide the administrative, coordinating, controlling, planning and promotional functions of international education programs currently sponsored by a variety of agencies and offices including but not limited to the Pacific Northwest International Trade Association, the Port of Portland, District Export Expansion Council, Oregon Economic Development, Columbia River Freightforwarders Association, Chambers of Commerce, U.S. Department of Commerce, and others.

8. To increase public awareness and understanding of the importance of international business to the Oregon economy.

Several strategies have been selected to accomplish the aforementioned objectives. An internship program for graduate and undergraduate students in Oregon who are interested in gaining practical international trade experience and academic credit will be established. Market analysis and international research data for selected client firms desirous of expanding their international

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[1] Target firms are identified as small to medium-sized firms located throughout the state of Oregon and southwest Washington with a perceived export potential currently not being met.

PROGRAM (CONTINUED)

programs and activities will be conducted by selected interns, and all research will be supervised by the staff director and/or consulting associates. This program will employ a balance of graduate and undergraduate students primarily from the field of business administration with special attention given to those students in the International Certificate Program at Portland State University. The program will be available to students from other universities, both private and public, and will be coordinated through the program director at Portland State University. Academic credit will be available. All direct expenses will be paid by the benefiting firm or organization.

1. COUNSELING

Those firms deemed appropriate by the advisory board for in-depth marketing studies will receive intensive counseling relating to the feasibility of their guidance into the export market. This counseling will be provided by senior certificate students, graduate students and international business majors under directed supervision of faculty members and export specialists. The tailored market study will provide a specific plan and program a detailed approach emphasizing how to deliver most profitably to the export market the product or service in question. These reports will be carefully examined by export specialists to ensure accuracy and feasibility before submission to the client firm. Studies will be available to small and medium-sized businesses considered to have an export potential currently not being met as determined by the advisory board and the director of this program. A standardized format will be utilized to ensure proper coverage of areas including market demand, market potential, market information, documentation, shipping, financing and additional information such as business customs, and political, social and economic considerations. It is anticipated that no less than 50 companies will receive this type of assistance during the course of the 12-month period that the program is in effect. A nominal fee of $300 will be charged each client firm receiving a market study. These funds will be used for post-grant continuation of this program.

2. MARKET ANALYSES

Research efforts will be conducted in two sectors: (1) area analysis, detailing economic and social conditions, significant trade regulations and trade practices, and (2) reports and forecasts on a country-by-country basis for selected Pacific Rim regions with a demonstrated or perceived need for Oregon products or services. The industry-wide, international market-potential analyses will concentrate on the business sections that can be profitably serviced by the existing business base of client firms. Collateral material will be prepared and distributed to selected client firms. This material will provide a step-by-step process whereby the client firm can explore at increasing levels of sophistication the feasibility of that firm's entrance into the selected international markets.

3. CONTACTS

A newsletter will be developed and sent quarterly to selected client firms with export potential currently not being met. This will be advisory and informational in nature, designed to provide not only information, but to stimulate interest and request for participation in the variety of programs offered.

A. A careful analysis of international trade promotions, trade shows, missions and fairs will be evaluated for advisory participation of client firms in Oregon. It is not anticipated that this program will involve a formal, organized trade mission.

B. Alternate methods of exporting will be addressed with special emphasis given to licensing, arrangements and joint ventures, and agent/distributor programs. The proposing agency will actively participate in assisting client firms in such arrangements. Checklists will be designed and provided for interested firms and, when feasible, specific assistance will be provided.

FULL-TIME STAFF DIRECTOR

The full-time staff director will be Dr. D. James Manning, Professor of Marketing and Director of International Business Studies Certificate Program in the School of Business Administration. Dr. Manning has been actively involved in the international business community in the state of Oregon for more than 20 years and has considerable experience in the execution of the types of programs that are contained within this proposal. In addition, Dr. John Oh, Associate Professor of Finance and Head of the Department of Finance-Law, who has a demonstrated and recognized interest and authority in the field of international finance, will participate directly in this program, as will Dr. Justin Y. Shimada, Associate Professor of Management and a recognized scholar and practitioner in the field of international business. He will be an active participant in this program.

A full-time staff assistant will assist the director in the areas of administrative matters. Selected students will be actively engaged in the research and data collection phases of this program, as well as directly assist client firms with the careful supervision of export specialists and the director and staff of this proposed organization. Brief biographical sketches are attached.

The program will be administratively linked to an International Trade and Commerce Institute to be formed at the University by the Fall of 1983. The University's Director of International Education and the faculty or organization's International Programs Board have endorsed the program's concepts.

ACCESS TO EXPORT SPECIALISTS

A major benefit that the award of this grant to Portland State University can provide is in the synergistic coordination of international education and service. The proposed funded organization can coordinate and assist in the execution of a variety of programs sponsored by such agencies as the International

ACCESS TO EXPORT SPECIALISTS (CONTINUED)

Division of the Oregon Economic Development Commission, the International Division of the Oregon Agricultural Commission, the District Export Expansion Council, the Port of Portland, and the Pacific Northwest International Trade Association. These and other agencies can serve a two-fold purpose: to provide the necessary specialized export information in relevant fields to client firms, and to coordinate a more balanced international program for the state of Oregon. The coordination of the diverse international activities currently conducted in the state of Oregon can prove to be a valuable assist, not only to those client firms desirous of the information, but also to the individuals who participate so willingly with their time and knowledge on a volunteer basis. Other agencies that can be called upon for assistance would to provide the necessary introductions in their communities to those who could benefit from the proposed programs are banks with international divisions throughout Oregon, the chambers of commerce, and the representatives from the Oregon legislature.

GEOGRAPHICAL AREAS TO BE SERVED

The geographical areas to be serviced by the grant-requesting organization include the entire state of Oregon and southwest Washington. Visits and formal presentations will be made to all these areas, providing information about international business and specific details of the assistance available to potential and existing exporters located in the identified market area. It is vital that this program encompass the agricultural and timber sectors of our economy as well as the manufacturing and service areas. To this end, preliminary contact has been made with selected leaders in the agricultural and timber community, whose representatives from these sectors will serve on the advisory board. The program administrators are committed to on-site service throughout Oregon on a broad industrial base.

NUMBER OF FIRMS TO BE ASSISTED

A minimum of 50 firms will be provided tailored marketing programs for their products. In addition, an undetermined number of firms will be invited to participate in seminars and special programs conducted throughout the state and in cooperation with other internationally interested organizations.

ADVISORY BOARD

The nine-member advisory board will be appointed as per grant specifications. As previously noted, this board will represent a balance of interests by industry and geographic regions. This board will be selected on the basis of their knowledge and ability to move this program to accomplish the enumerated objectives stated at the outset.

PORTLAND STATE UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION
PROPOSAL BUDGET NOTES FOR
SMALL BUSINESS EXPORT DEVELOPMENT ASSISTANCE PROGRAM

	FEDERAL [SBA] SUPPORT	MATCHING* SHARE - CASH	TOTAL PROJECT [12 MOS] BUDGET
1. SALARIES AND WAGES			
MANNING, D. James; Staff Director 46,360 @ 1.00 FTE PLUS 15,299 [Benefit]	20,553.00	41,106.00	61,659.00
OH, John S.; Rsch./Cnsltng/Trng. Assoc. 44,429 @ 0.33+ FTE PLUS 4,887 [Benefit]	4,924.00	14,773.00	19,697.00
SHIMADA, Jay; Rsch./Cnsltng/Trng. Assoc. 43,545 @ 0.33+ FTE PLUS 4,790 [Benefit]	4,826.00	14,479.00	19,305.00
TO BE NAME; Administrative Assistant 16,000 @ 1.00 FTE PLUS 6,400 [Benefit]	2,697.00	19,703.00	22,400.00
Total Personnel Costs	33,000.00	90,061.00	123,061.00
2. CONTRACT SERVICES			
Consultant Fees: 34 Days @ $180/day	6,120.00	0.00	6,120.00
3. TRAVEL AND PER DIEM			
Domestic Travel Budget:			
Administration (Director/Associates)			
17,500 miles @ $0.22/mi.	3,850.00	0.00	3,850.00
Overnight Lodging: 75 Days @ $35/day	2,625.00	0.00	2,625.00
Meals: 75 Days @ 17/day	1,275.00	0.00	1,275.00
Student Associates Travel			
15,000 miles @ $0.22/mi	3,300.00	0.00	3,300.00
Per Diem Expenses	3,500.00	0.00	3,500.00
Consultant Travel Expenses	4,000.00	0.00	4,000.00
Total Domestic Travel Budget	18,550.00	0.00	18,550.00
Foreign Travel			
Travel Expenses to Japan	10,000.00	0.00	10,000.00
Total Travel and Per Diem Budget	28,550.00	0.00	28,550.00

4. SPACE COST AND RENTALS

Office Space: 12 Mos. @ $600/mo.	7,200.00	0.00	7,200.00
Office Equipment Rental	4,000.00	0.00	4,000.00
Total Space Cost & Rentals	11,200.00	0.00	11,200.00

5. OTHER COSTS

Advertising	1,000.00	900.00	1,900.00
Telephone	1,500.00	2,000.00	3,500.00
Postage	1,000.00	1,000.00	2,000.00
Printing/Duplicating/Copying Srvcs.	8,000.00	4,039.00	12,039.00
General Operating Supplies	1,130.00	2,000.00	3,130.00
**Conference / Workshop Expenses [incl. Refreshments, Equipment/Room Rental]	8,500.00	0.00	8,500.00
Total Other Direct Costs	21,130.00	9,939.00	31,069.00
TOTAL PROJECT BUDGET FOR 01 YEAR	100,000.00	100,000.00	200,000.00

* Portland State University is currently soliciting both Legislative support for funding from Oregon General Funds Appropriation and broad-based community support.

** Portland State University may charge participants registration fees , Such funds would be used to underwrite conferences and workshops in this program.

PLEASE ALSO NOTE: Portland State University will also charge a Nominal Fee of $300 to each client receiving a Market Study Report. These funds will be used for post grant continuation of this program.

* * *

1. Information Supplementing Budget

   a. Portland State University will obtain a subvention from the Oregon General Fund, as scheduled in the Legislative Session of 1983, to provide a matching cash share of $100,000.

   b. No in-kind services will be offered as a matching share.

   c. Program income will by generated by charging a nominal registration fee to firms receiving assistance through market studies, as described on page 3, part 1, Counseling.

   d. The Staff Director, Research Associates and Administrative Assistant receive salaries on an annual basis as noted in the budget, page 6. The approximate hourly salary rates for a 40-hour work week are as follows:

Staff Director(Manning)	$23,88
Research Associate (Oh)	$20,62
Research Associate (Shimada)	$21.04
Administrative Assistant	$ 7.58

   e. No work will be subcontracted.

   f. Per Diem rates established by Oregon Statutes is as follows:

In State
Meals: Bkfst $4.00, Lunch $4.50, Dinner $10.00
Lodging: $23.00
Out of State & Foreign
Meals & Lodging: variable

   g. The matching share in the amount of $100,000 will represent an increased effort of export assistance activity by the grantee.

   h. The export assistance program will begin no later than December 1, 1983. Increased export levels can be anticipated as early as one year following the grant period.

   i. Organization chart appears on page 9.

   j. The program is designed to develop specific programs to increase export sales.

   k. Fees for conferences and market studies, state appropriations, and contracts and grants will enable us to become self-sustaining.

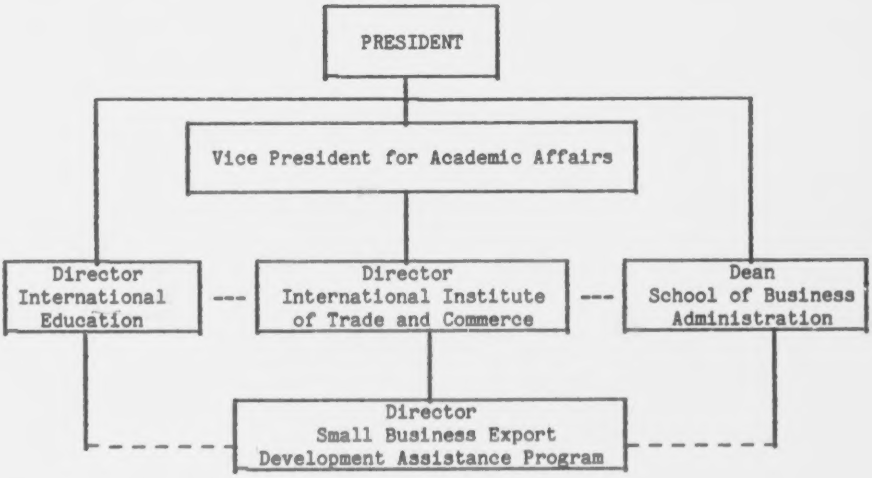
2. As indicated in the budget, page 6, less than one-third of the federally funded salaries and benefits will be defrayed from the total federal funds requested.

3. No other federal Support will be utilized by the grantee for export development.

ORGANIZATION CHART

Small Business Export Development Assistance Program

Portland State University


PRESIDENT
Vice President for Academic Affairs
Director International Education
Director International Institute of Trade and Commerce
Dean School of Business Administration
Director Small Business Export Development Assistance Program

BIOGRAPHIC SKETCH
OF FULL-TIME STAFF DIRECTOR AND CONSULTING ASSOCIATES

D. JAMES MANNING is Professor of Marketing and Director of the International Business Studies Certificate Program in the School of Business Administration. He received his B.A. from the University of Oregon, M.S. from New York University, and Ph.D. (1967) from the University of Washington. Dr. Manning has been associated with Portland State University since 1960. He has held academic positions with Seattle University and the University of Washington.

Dr. Manning was the recipient of the Macy's Award for Excellence in Case Problems and the Sak's Award for the Outstanding Master's Thesis (1958). He has contributed to the Journal of Retailing and the Oregon Business Review, and is co-author (with E.J. Kolde) of the International Marketing Section in the Marketing Handbook (1964).

Dr. Manning was formerly Chairman of the Department of Marketing at Portland State University, and participates extensively with Oregon and Southern Washington firms either in the capacity of a consultant, advisor, or as a member of the Board of Directors. He is currently on the Board of Advisors of the International Division of the State of Oregon Economic Development Commission and is currently serving his sixth term in the Regional Export Expansion Council.

JOHN S. OH is Associate Professor of Finance and Chairman of the Department of Finance and Law. He received his B.A. from Howard Payne University and his Ph.D. (1978) from the University of Virginia. Dr. Oh has been associated with Portland State University since 1979. He has held academic positions at Rider College (New Jersey) and at Kansas State University.

Dr. Oh was the recipient of the Ford Foundation and the Earhart Foundation fellowships for graduate studies at the University of Virginia. He was also the recipient of the Ayres Foundation Faculty Fellowship for participation in the Stonier Graduate School of Banking, and was the faculty fellow at the University of Washington's Pacific Coast Banking School and the Pacific Rim Banking School. He has contributed to the Financial Management Journal, is Editor and contributor of International Financial Management: Problems, Issues, and Experiences (JAI Press, 1983), and manuscript reviewer for the Financial Management Journal and the Journal of Financial Research.

Dr. Oh has also participated in the Financial Management, Eastern Economics, and Western Finance Associations. He has conducted management seminars in International Financial Management in Kansas and Oregon, served as expert witness for valuation of lost income, and serves as an investment advisor to the Portland Teachers Retirement Fund Association.

JUSTIN Y. SHIMADA is Associate Professor of Management in the School of Business Administration. He received the B.A., M.B.A. and Ph.D. (1979) degrees from the University of Washington. Dr. Shimada has been associated with Portland State University since 1979.

Dr. Shimada has contributed to many journals including the Academy of Management Review, the Academy of Management Journal, Management World, Supervisory Management, Business Forum, and the Journal of Purchsing and Materials Management. His contributions are mainly in the areas of labor productivity, Japanese management and in international business.

Dr. Shimada was formerly associated with the Boeing Corporation and the Federal Reserve Bank of San Francisco. He has served as consultant to several Oregon organizations on quality and productivity measurement systems including Tektronix, St. Vincent Hospital, City of Longview, and Oregon Software. He has also given numerous seminars on How to Do Business with the Japanese and on Japanese Management Techniques.

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Mr. IRELAND. Dr. Manning, did you want to have a word here now?

Mr. MANNING. I think it is well covered. I would be pleased to answer any questions.

Mr. IRELAND. Mr. Wyden.

Mr. WYDEN. The first thing I would like to say is congratulations. I think everybody in the area is really pleased this is going to get off the ground.

My understanding now is that you don't need Federal money, that you have been able, through the legislature and with your private sector activity, you are on your way. Is that right?

Mr. BOGUE. We have received $230,000 from the State legislature for the biennium. To do the things right, we need an additional quarter of a million dollars of seed money. We have one grant application in to the Department of Commerce specifically related to this program I just described, which if successful, will help. There is a lot of competition for that grant award, however, in our region, and we don't know, of course whether we will be successful.

We have had preliminary indications that we will get hard cash support from the Port of Portland. We have two or three other businesses who are very interested, but no, I do not have the additional $250,000 raised yet.

Mr. WYDEN. I am glad you cleared that up in my mind, and I didn't go home thinking it was all done. You can count on my effort to try to come through with the various kinds of grants and areas where we can apply for possible assistance.

One other thing I wanted to ask you about. I think this is a prime area for us to look at in terms of export expansion. The educational system hasn't done all it could. That includes foreign languages, all kinds of other things. As you get into this, you are going to make an effort to look at the whole gamut of the Federal educational system and try to see where some changes might be made so we can gear more of the educational effort to export expansion. Is that basically your approach to this, because I would like to work with you on this? My feeling is, given the fact that the Federal Government spends so much in the Federal education field, we ought to be making a systematic effort where possible to gear what we are doing to export expansion and efforts that are going to help us create new jobs. I wonder how you are going about this process, other than to apply for the applications on line. We will help you with that. I think you know that.

But what else can be done in the long term?

Mr. **Bogue**. That is a very interesting question, because I think it hasn't gotten that far. But one area that I think we ought to think about is scholarships funded by the Federal Government in areas where we would like to push students, and I think in languages this could be very important. We need a few schools, it seems to me, starting to teach oriental languages—Japanese, Chinese, and Korean, at about the second or third grade level, but with a program to continue that through to total fluency.

For example, a lot of people doing business in Japan now know the language well enough to be able to take care of a taxicab, but in terms of doing business and getting into the technical language problems, it just is very, very difficult for most people to do based on starting out when they are an adult.

I think one of the things we really need to look at is an expansion of the program which is going on now at Lincoln High School, which is, I understand, one of the outstanding programs in the State and perhaps on the west coast in languages. The Japanese nationals do well in English. When do they start learning it? About the second or third grade. We need to concentrate on being able to do business in the languages where we want to be in the markets.

Mr. **Wyden**. You think one of the primary areas would be the Federal scholarship programs?

Mr. **Bogue**. I think this would be a real potential.

Mr. **Manning**. May I comment? If I could make just an additional comment or two.

I think this could be a self-help and a mutually beneficial type of program. We would like you to look very carefully at what will happen at Portland State University, because we are vain enough to think we can generate a national model. We have had past successes with programs similar to this that have been adopted by other major universities throughout the world and country. We have had now more than 20 years experience in this area, and over that period of time, with the able assistance and cooperation from both the Federal and State agencies, and the business community, we have been able to develop a rapport that I think gives us a launch pad to make a central thrust in the education area, in an outreach approach to deal with small and medium-sized businesses.

It is our contention at this point that one of the major reasons we are not exporting more is because the small to medium-sized businesses are, one, not aware of the opportunities, do not know how to proceed, and once they do have these things, they need additional direction.

You have heard from many agencies this morning and business people who are suggesting to you that, yes, there are many programs, there are activities, but these need to be coordinated, they need to be put into some sort of synchronization, and if we all work together, as we will in the State of Oregon, I think we will see a dramatic increase in exports, jobs and an increasing economic base.

We have the resources in terms of the outstanding students. We have the industry that needs it, and we have the full cooperation and support of the business community and the Federal and State agencies.

I am suggesting two things: One, watch us; and when we come back to Washington, D.C., please help us get the rest of that money.

Mr. Wyden. Thank you, gentlemen.

Mr. Ireland. Thank you all very much. Good luck.

From Boyd International Foods, Mr. Jay Killeen.

TESTIMONY OF JAY KILLEEN, BOYD INTERNATIONAL FOODS

Mr. Killeen. Mr. Chairman, and Congressman Wyden, I am fortunate enough to be involved in private business on a wholly export basis and simultaneously to represent a foreign government in the State of Oregon. I am counsel general for Malaysia here, so I have an opportunity to see international trade from two perspectives.

For Boyd International Foods, I have started a subsidiary of a company that has been in the State of Oregon for 81 years. I started it 2 years ago.

It must make you wonder what an 83-year-old company was doing for 81 years when they were not talking about international business.

I don't think it is the fault, if you will, of Boyd's. I think it is the fault of communication in our own country plus the fact that Americans have never really realized they had to be in international trade. The domestic market was so nice.

Out of 225 employees, 2 of us are engaged in export, 3 are engaged in import. So we are now an international trading firm all the way around.

When I was first invited here, I was invited to reflect on real problems which we encounter in international trade. Our view of Government programs like DISC and GATT; and DISC specifically. And dealing with the Japanese, where we do about 70 percent of our business—and I suppose I should tell you first of all that Boyd Coffee is our parent company.

We manufacture 30 different tea and coffee products and spices from all over the world. We also process dried products. We can either export directly or license overseas, or do a quasi-licensing program, where we send a proprietary package overseas.

As I leaped out of bed this morning and I thought about international trade impact, I turned off my Sony clock radio and reached for my Swiss watch, and I ran downstairs to take a shower, and I used soap from Fuji. I put on underwear from Hong Kong. I had a cup of Malaysian tea. It was in an English cup. When I grabbed my old carryall bag, which I bought in Hong Kong, and ran out the door, I hopped in a German car, and came down here with Saudi Arabian gasoline. It appears a lot of people around the world have learned this international trade business before we have.

So now as we encounter international trade and look into international trade opportunities, we see some things that our Government could be doing and yet we feel like we are kind of tilting at a windmill, because we are a small company in Portland. How can we challenge GATT activities, or how can we say something with impact on the DISC program. I guess now DISC is dissolving in Washington, D.C., because of GATT complaints.

So if you could characterize my statement in any one way, it is probably a GATT indictment, because I think that 36-year-old treaty we had with the original 24 nations has lost some of its clout for our country.

For example, we are allowed in our country to negotiate bilaterally with foreign countries on every issue conceivable—military aid, sporting activities, scientific, et cetera—but GATT stops us from bilateral negotiations overseas. So we are forced to negotiate multilaterally.

Of course, the Japanese like this, because they cloud the issue of the real problems between our countries. We find ourselves comparing our orange exports to Japan, versus their under 750-cubic-meter motorcycles here; our beef to Japan versus their cab/truck chassis here. So we get involved in little details of negotiations which I think avoid the issue.

I would have four suggestions: We would like to see our Congress give direct legislative authority to the President to force a major trading partner, who is a major economic trading partner, into a dollar-for-dollar parity trading relationship. That is one point.

Two, somebody in our Maritime Administration or someone in our U.S. Department of Transportation has not been doing their job, with regard to shipping rates. We know that there is no parity in shipping rates on products coming from the Orient to our west coast versus products going from the west coast to the Orient. I have a specific example I will share with you.

Third, an honest to goodness viable DISC program. Back some years before I can remember, a DISC program [Domestic International Sales Corporation program], was created by our Congress. It was a very, very good program. No complaints in the business community because it offered true tax incentives to businesses to go into the business of export.

If you say, why does a business in international trade need tax incentives, I can tell you two reasons. There is such a lag time between the time when you do your international trading. From the time of your initial proposal time to get through all the governmental regulations and handle all the language problems and all the transportation problems. You have 2 or 3 years invested. So, it is a colossal investment.

Second, we find we are in competition with countries. We are a big company by Oregon standards, but we are not as big as France or Denmark, and we are not as big as Japan. We are competing against those countries.

So if we had an honest-to-goodness viable DISC program and could set up a subsidiary, or Boyd International Foods was a DISC corporation, and we received certain tax incentives for spending the extra time and money overseas doing business, it would be more viable for us.

All the other folks you have heard from here could preach the tax incentive issue. The businesses are in business to make money, and nothing would be of more benefit than tax incentive.

My fourth proposal would be, once a DISC program was viable, to encourage the help of the IRS to propose to small businesses through perhaps an educational brochure advising them how to save money on taxes by joining international trade and participating overseas in a DISC program.

If I could refer to point 1 just briefly. If we did such a thing as give our President authority to force dollar-for-dollar parity with the Japanese, he may not even have to act. I think they would be so worried they would be inclined to negotiate. I am one of the persons who happens to not believe they are so much more clever than we. I happen to believe that they don't negotiate in good faith, and I brought some of their own literature to prove it.

This is from the Japanese equivalent of our Wall Street Journal. The front page had an article that said, "MITI tries hard to pare down trade surplus." It indicated the Japanese Government was worried because the favorable balance to the Japanese was going to reach $18.5 billion this year as compared to $9 billion last year.

I have read this newspaper for 5 years. Last year the same time they had the same article in there. They were worried about a $9 billion surplus last year; now they are worried about an 18. It is pretty obvious they haven't done anything over the course of the year to rectify the imbalance.

On page 3 of exactly the same paper, there is a note that says: "The MITI is to file a complaint against the United States with GATT and the complaint is to be filed over a cab chassis duty."

So the first page they are saying they want to do things to modify their trade imbalance, and on the third page they are saying they don't like the 25-percent duty on the cab chassis. The Japanese don't recognize a chassis as a part of a car. They recognize it as a car, and therefore it should have a 3-percent duty.

We are going to have a suit filed against us in GATT, and it will be exposed for all of the 100 members of GATT to talk about. In reality, what should be happening is our country should be talking to them on a bilateral basis and telling them the way it is. You folks have $5 or $6 billion favorable balance, and we want some of it back.

There are many ways we could bring them into balance with us, I think, in parity dollar trading relationships. It doesn't have to be negative. You don't have to say you are $5 billion ahead of us. We either clear it up by next year or it is all over.

We know that is impractical. But there are a lot of other areas. We could say you pick up 500 million dollars' worth of telecommunications equipment. You pay for 1 billion dollars' worth of our military activity in Southeast Asia, because you have the money to do it. Why don't you increase your aid to Latin America, et cetera, et cetera?

There are many different ways that we can force them into a parity at least of spending, if it is not dollar-for-dollar trading.

I will save this article for you.

I guess I have to also complain a little bit, since I was asked to talk about specific relationships between our company and our trading partners and some of the problems we encounter. Thirty-six years ago when GATT got together, they did a job of paring down tariffs. So they got rid of all the tariffs. What they created instead is a nontariff barrier which is much more insidious. It is very tough to get around.

If you look at a nontariff barrier from an academic point of view, unless you are really involved with it day to day, it looks like something an international court would reflect on.

I am going to share three of those I deal with every day. There are two types of shipping methods by ocean that an international trader can deal in. One is by conference shipping and one is nonconference.

I have never understood why conference shipping exists, because it seems like it is illegal. The conference is a union of ship lines that get together to fix prices, and price fixing is illegal in this country. But for some reason, these people can get away with this.

I deal with the Pacific Westbound Conference in San Francisco. They must have now 15 to 20 members. They meet monthly and they talk about pricing and how they can fix rates.

I had an opportunity to sell wine from California. I wanted to ship it in bulk, 4,000 gallon containers to Japan, and I had a customer. I contacted my freight forwarded and asked her what the shipping rate was. She said, $160 per metric ton. I thought that wasn't bad.

They told me I had to pay $15 a day for the container. I decided what I needed was a back haul on the container. I found a saki shipper to ship saki, from Japan to the United States.

I checked the freight from Tokyo to San Francisco. It was $88 a metric ton. I said, "Is that conference?" He said, "Yes." I said, "How come it costs $88 a metric ton to ship saki from Tokyo to San Francisco and it costs me $160 a ton to ship wine from San Francisco to Toyko?" He said he didn't know.

So I wrote a proposal to the pacific westbound conference and asked them for a modification of the outbound rate, because I said I don't think American exporters should subsidize imports through shipping costs. They came back and said that no rate modification is possible.

I contacted Bob Packwood and I asked him for help. He didn't do anything. So I have only to tell you that I think this must be some sort of time-honored right that foreigners have to fix rates so that American exporters pay more than Japanese exporters for shipment of the same products.

I would like to summarize by identifying to you four tariff barriers that our company has encountered, three nontariff barriers, and one tariff barrier. You can see for yourself how difficult it is to deal in the overseas market even once you have all the education and all the help from the various agencies—you get overseas and you find irrational reasons why you are not going to sell.

We did an export management program with a company in Canada, called Vitality Vitamins. Half of the vitamins originated in the United States and half from Canadian sources. We went to Japan and looked up all the regulations and found the Japanese didn't have any prohibition for the importation of vitamins.

We spent $10,000 to $12,000 designing literature and marketing program for the Japanese, working out distribution patterns within the country, working with our Canadian principal, labels, et cetera, and we had it all ready to go. We shipped our first sample shipment overseas. It was confiscated.

We asked the Japanese Government why. They said there is a prohibition against importation of vitamins because it is medicine. I said, "When did the prohibition come about?" It came about after I had researched their records and visited with them. So they set up a prohibition because they thought this outfit from Oregon and this outfit from Canada are going to flood the Japanese market with the vitamins. That was our intention, of course. That is a nontariff barrier. It stopped us dead.

Another nontariff barrier: We ship large quantities of soup to Japan. We shipped the same formula, the same types for 1½ years, and in each instance our importer complains of clearance delays. So we said, "We don't understand that. We fly our documents over by courier; they get there the next day. The banking is no problem. So what is the matter?"

They said the Japanese Food Sanitation Authorities don't accept precedents in their analysis and they want to analyze it and do lab tests on your products every single time, with delays of 2 weeks.

They come back with the same reaction. They say you have a certain percentage of yellow No. 5 in your cheddar cheese soup, et cetera, et cetera. I have a ream of these lab reports. They all say the same thing. So it is just another nontariff barrier.

A third for your consideration. Whether you know it or not, we Americans eat sand. There is a product called silicon dioxide, a food additive, put in dried mixed products in the United States. It is a super-clean sand, very porous. It is far better than 99.44/100 percent pure.

The Japanese don't allow that product, but they allow sand in their products in Japan. So on the last shipment, sample shipment of products I sent over there, I indicated in the ingredient statement sand, and cited the acceptability in their own law. They came back and said silicon dioxide is not acceptable. They do that because we use silicon dioxide in the United States and they use sand over there, but silicon dioxide is sand.

A third, on tariff barriers. We represent the San Martin Co. of California. We are attempting to export their 750 milliliter bottles of wine. They have very good quality, but the price structure comes right about the center of the California wine industry. They are medium priced.

In the Japanese tariff books, they have a 10-percent duty on wine that arrives there under 940 yen, which is basically $3.90. If it goes one penny over 940 yen, the tariff goes to 50 percent.

The reason is they have quite a beer industry and a whiskey industry, and the beer and whiskey industry is getting into the wine business. They want to import wine in bulk and be in the mid-price range. So the Japanese Government has cut out exporters who operate in the mid-range pricing.

So you have four samples for your consideration. So when you go home you know you are armed with some specifics, realizing that there are companies that are actually experiencing these barriers every day.

I would like to summarize by saying that I don't think the American businessman needs any gifts. He needs training, encouragement and advice, but he doesn't need gifts. He needs to be treated fairly.

If you folks in the Congress can force foreign governments to modify nontariff barriers, and you can negotiate with these governments on equal footing and talk about fair trade, you are not going to find you to have to give away a lot of money from Congress to businesses, and they will return many rewards for you, capital and increased labor activity in the United States.

I brought you a present, so that you won't go back to Washington, D.C., thinking that American companies are not able to work in a foreign market and are not able to develop products that fit the foreign market. I have two 19-cent packages of soup.

This soup was manufactured 10 miles from where you are sitting. It was packaged in Japan. When you look at the package, I know you will know it is not an American marketing package.

Thank you.

Mr. IRELAND. Thank you, Mr. Killeen.

I have a question or two for you. I can't help but say I share a lot of your feelings about nontariff barriers. Unfortunately, most of the people in our Government don't understand that most American businesses could spend several hours of each day just swapping stories about nontariff barriers. Unfortunately, I think parts of our Government try to act as though they don't exist. Yet the American business community is aware of it. They are as intriguing as they are upsetting.

I have one county in my district in Florida that produces more citrus than the whole State of California. Ninety some percent of it goes into processed juice from that area. Obviously we have a little bit of trouble with nontariff barriers in Japan. As a former businessman-banker, I am still working with it in the Congress.

The point that you made is well taken. Those nontariff barriers are there. I don't know how anyone in our Government, regardless of political designation in any administration, could have the audacity to say they have made any progress along that line. No administration has made any progress.

With that in mind, I would ask you whether the problem with GATT is one of GATT itself in particular or, more importantly, whether it is one of the inability of our State Department's special trade representatives? The whole gamut is being able to extract from GATT a case in point is quotas are illegal under GATT. Here you are talking about the Japanese and that article.

Quotas have been illegal under GATT since its inception. There have always been quotas by the Japanese on the importation of frozen orange juice. It doesn't take much to figure out that our Government hasn't been doing something about that, and that stretches over quite a few years.

Is the problem in your mind GATT itself, or is the problem the State Department and an ingrained American foreign policy coming out of Wilsonian diplomacy, or out of the post-World War II diplomacy, putting people back on their feet, and now we have ingrained in our foreign policy, don't rock the boat?

Is it really GATT or really lack of forcefulness within a foreign policy structure?

Mr. KILLEEN. Well, GATT is obviously responsible for the creation of nontariff barriers, because it was the one way to hide a barrier—when you were asked to reduce your tariff. I just cannot approve, as a patriotic American, I cannot approve the idea that we have lost our ability to negotiate economics on a bilateral basis.

So if we have lost that ability because we pay too much attention to GATT or in fact more attention than our competitive nations pay to GATT, then I think it is our State Department's responsibility.

Mr. **Ireland**. Well, my point is we don't enforce our rights even under GATT. It may have been an impetus to get around GATT that we have nontariff barriers. But they didn't come into existence because of GATT. They are available under any pressure, which would mean, a great responsibility if our Federal Government was to enforce GATT to the extent it should be. One, it is not being enforced. Two, do we do something about nontariff barriers that would be there regardless of whether you had GATT or not.

Mr. **Killeen**. Well, I agree with you that GATT wasn't totally responsible. I think the non-tariff barriers got a little bit more sophisticated, because a tariff is pretty obvious.

If you are sitting around in a group of a hundred nations and they say you have to cut your auto tariff down by 5 percent, it is pretty obvious if you do it or not. But when you slap on emission control problems and size of tires, et cetera, then it starts to be nontariff barriers.

I think those are a result of the GATT meetings. I think anything that you create between governments that is 36 years old should be reviewed. Anything that is 36 years old, it seems to me probably needs updating.

This is a fast-moving world. We have to get involved in international trade. We have these particular problems. We are a small company vis-a-vis the rest of the United States. Yet we feel there is no hearing about these, there is no place to go. So that is why I jumped up and came down here, to testify.

Mr. **Ireland**. You are absolutely correct. There need to be more people like you jumping up and coming down here.

In my view, we are not even enforcing the formal tariff arrangements, let alone the nontariff ones that you say are harder to get to.

Let me ask you one other question. You have talked, and a lot of what you are saying is "get out of the way and let us have a little incentive to do this." Sam Naito said the same thing about incentive.

Is the adversity of recession, the adversity of our reduced position in the world. Economically we are reduced from 45 percent just 10 years ago of OECD gross national product, down to 37 percent. If you compare to the non-Communist world, we say, we ain't the big deal in the world market we used to be; we better get off our rear end. We also go and say these other countries, instead of 10 percent of their gross national product being exported, it is 30 and 40 percent. They are spurred on to do that. We haven't been spurred on because we are introspective. Is adversity the only thing that is going to create this incentive?

We have all these things to lead the horse to water, and nobody is drinking except when we get into a tight place.

Mr. **Killeen**. It certainly helps.

I think Lloyd Porter discussed some of the people who come into his office whose businesses are a bit slack because of the domestic economy, and they are trying to get into international trade. It is not possible because you cannot do it that quickly. But adversity attracts attention to another marketplace.

I think honestly I don't like to see the Government involved in anything that business could do. But I really do think that generating attention to international trade opportunities is the Federal Government's as well as the State government's responsibility, and you can do that with a good DISC program.

I hate to wave a wand and say I have the solution, but I will guarantee it; with DISC.

Mr. **Ireland**. Thank you.

Mr. Wyden.

Mr. **Wyden**. Thank you, Mr. Chairman. I think it was an excellent statement, Mr. Killeen. I just have a couple of questions.

You are a major employer in my congressional district, so whenever we can be of assistance, we want to. That is why we were anxious to have you testify.

The first thing I wanted to go into was the new DISC proposals, because there are a variety of them. They all seem to have one feature which concerns me a little bit. Almost all of them seem to require greater actual physical presence overseas, and that seems to me an element in almost all of them.

My feeling is that that would work hardship on a lot of small businesses. I am curious if that would be the case for your firm. Do you have anybody overseas now?

Mr. **Killeen**. Me. There are two of us in the international department, myself and an assistant. It is only 2 years old. So I travel overseas when needed. To put an office overseas, someone here reflected to the cost, I think it was Doug Frengle, about the cost of putting an Oregon State office overseas, and they were looking for some money. Our State has been talking about that for years. I used to be a consultant with our Oregon Department of Agriculture. We were talking about this 5 or 6 years ago. And the money was just never there. So if a State cannot afford to put an overseas office in order to comply with some DISC opportunity, I don't think many businesses would do that.

Mr. **Wyden**. All these proposals seem to say the firms would have to have a greater actual physical presence.

Mr. **Killeen**. Does that mean you could travel there and come back home, or does that mean you can open an office?

Mr. **Wyden**. I think the feeling is actual physical presence. What you have said so far today reinforces my concern. I will work to do everything I can to minimize this. Because I think the small firms in particular would have a great deal of difficulty if we were talking about actual physical presence. If you could travel there, it would be another story.

Mr. **Killeen**. We have an office that we use in Tokyo. It has a desk and a secretary and a telex. If I had to use that office to comply with some DISC program in order to take advantage of tax incentives, I would do it. But it would be considered a phony office, I suppose, even though it is there. It is staffed and the door opens every day, but I am not there. So I think that is impractical.

Mr. **Wyden**. Let me ask you a question about the dollar-for-dollar parity trading concept and the Congress giving the President this authority.

I think the chairman's point generally is reflective of my position as well. We are concerned about nontariff barriers. Everybody understands there are unfair trading practices. The question is what can you really do to deal with the unfair trading practices and get countries to remove them without in effect full-scale protectionism by setting up barriers.

To some extent I think we all understand we live in a global village, because of communications. Because of transportation, people are going to buy the best product at the lowest possible price wherever they can get it. I think it is a reflection of this global village.

Tell me a little bit more how this idea of a parity, dollar-for-dollar trading relationship would work.

One thing that confuses me, would it be based on aggregate purchases in a country, or would it be industry by industry? I want to give you an example.

If Congressman Ireland's constituents are not treated fairly with respect to citrus and you are not being treated fairly in coffee, what good does it do to just set up an aggregate total and say, "We have to have this aggregate total on dollar-for-dollar parity," when we have not dealt with the problems of citrus and coffee people? I am interested in the concept. I am looking at it. I want to understand how it works.

What can we do to approach this kind of thing in a flexible way? There are members on the Commerce Committee that I sit on looking at the same thing.

Mr. **Killeen**. You folks, if I am not mistaken, gave the President not so long ago the opportunity to negotiate on individual tariff increases. I think the first time he used it is when he slapped a tariff on the Japanese motorcycles over 750 ccs. It startled the Japanese. If you were over there and talked to the businessmen, they just could not understand how the United States could be so unfair. The papers were filled with reflections on that. The Japanese will bring that up again.

All of our negotiators' attention will be focused on that motorcycle nonsense. That is only one U.S. company in the whole country. We shouldn't be negotiating with a major economic "trading company" like the Japanese on a motorcycle basis or on an orange basis or a chassis basis. If the President had the authority to get Nakasone in his office and say,

> Look, you sold $5 billion more to us last year than we sold to you, we want that pared down by $1 billion this year; that is only 20 percent. We are not asking you, we are telling you, because I have too much pressure in Congress, too many orange people, motorcycle people, they are all after me, and I intend to stay here another 4 years, and you better do it.

That would sure solve a lot of problems, because they would know that they were up against a trade war, and I think that they would be in shock and I think they would respond.

If you look at this article that I showed you, you will see the items they have chosen to pare down trade surpluses in are silly.

Mr. **Ireland**. Almost as silly as their helpful offices they agreed to set up in the last meeting of GATT.

Let me ask you along this parity proposal of yours, Congressman Wyden says, and I think correctly, we would all agree a global village is a way of talking about it. If we get down to a parity vis-a-vis each country, aren't we going to run into trouble?

Mr. KILLEEN. Yes, but I am suggesting only to do it with the major trading nations. There is no way we could have a parity with New Zealand, or Singapore, or Malaysia, the country I represent, because they are so small.

Mr. IRELAND. We have some major places that we are all aware of where the imbalance is substantial the other way. They would have every right under that to say, "You are insisting on it going even-steven over there with your major trading partner, Japan, we want an even-steven."

We get just so much of a market for widgets from Egypt. Is that parity by parity really going to work out, or should we use that energy on knocking down these trade barriers where they are, going to the European Common Market and saying that "these agricultural tariffs that you have and nontariff barriers are absurd," and working on the fairness all the way across the board without regard to trying to balance it out with a dozen or so major trading partners?

Mr. KILLEEN. It really may be impractical, because it is a big affair. But it is one of these things that you may not use; my suggestion is probably it wouldn't be used. But if the Japanese thought you were going to use it, they are the ones who are going to be affected the most. I don't know how Egypt could expect to be on a trading parity with the United States or some of the small countries. They don't even have the ability to produce enough for us to consume, maybe except for one industry like cotton or something on that order. But if you tried to force some sort of parity relationship—maybe my formula is not exactly precise enough for our executive branch to get excited about. But you have to let the Japanese know you are going to force a dollar-for-dollar parity rather than negotiate with them on an individual item-by-item basis. They can tie up our negotiators for years on motorcycles and oranges.

Mr. IRELAND. Well, your point is well made and we appreciate it.

Mr. WYDEN. The only other thing, you said we would not use it. I don't think anything is more destructive of our foreign policy than shooting with fake bullets. If we are going to do this, let's do it. If not, let's not do it. I will continue to follow this, because it is coming up in the Commerce Committee. Congressman Florio has a full-scale trade parity kind of relationship.

I am pleased in the way you foresee the concept, you see it getting to an aggregate total rather than trying to match citrus to this and something else to something else. I think Congressman Ireland made the key point, that we better look at this very, very carefully or else it will rebound to our disadvantage, because there is some country where the imbalance goes very much the other way and where we are very much advantaged by some of these policies.

I will keep you abreast of the things we are looking at in the Commerce Committee. It is a good suggestion in a tricky area. I will do everything I can to consider it fully.

Mr. KILLEEN. Thank you very much. I will give you these two packages of soup. They have a 2-year shelf life.

Mr. IRELAND. We thank you. That is excellent testimony. We appreciate it.

I want to make sure we hear from each of our remaining three witnesses: Mr. Bright, Mr. Smith and Mr. Kato. Perhaps if you could each come up here; we have a little over a half an hour to make sure we meet our deadline.

We have Bill Bright of the Western Power Products; Gordon Smith, Columbia Machine; and Carl Kato, Portland Chamber of Commerce.

Mr. Bright, if you want to proceed.

TESTIMONY OF WILLIAM L. BRIGHT, PRESIDENT, WESTERN POWER PRODUCTS, INC.

Mr. BRIGHT. Thank you. I came in along toward the end of Lloyd Porter's testimony. So maybe some of the things I am going to read in a short prepared statement might be redundant. However, I will read it.

In response to your invitation to testify at your July 8, 1983 hearing to be held in the Portland Building, Portland, Oreg., I am pleased to offer the following comments:

I am the founder and chief executive officer of Western Power Products, Inc., a closely held Oregon corporation established in 1958. We employ between 75 and 100 people in the manufacture of high voltage electrical switch gear as used by electric power utilities, fiberglas equipment enclosures, power distribution substations, and various tools and hardware. Our product lines are backed by over 20 U.S. patents which have been awarded over the past 18 years. We market our products throughout the United States and to some export countries.

In the 26 years of Western Power, we have experienced many of the problems common to most similar small businesses, both in the establishment of our product lines in the domestic market and in our involvement in international trade.

In speaking to export problems experienced by small businesses in Oregon—comparable in size and product lines to WPP—I can say first that a great deal of information and specialized assistance is already in existence here—available to any of the several thousand businesses in the State who wish to take advantage of this assistance.

The State of Oregon, Department of Economic Development, International Trade Division headed up by Doug Frengle, has an active, full-time staff who are in contact with Oregon's prospective exporters on a daily basis. Among their many pieces of reference material is the Oregon Exporters' Handbook, a unique up-to-date reference book which leads the prospective exporter through all phases of exporting information from how to reach the markets to financing, pricing, travel, et cetera.

Working very closely with Doug Frengle is the U.S. Department of Commerce, International Trade Administration, headed by Lloyd Porter. Porter's staff offers a wide range of support to Oregon businessmen, such as direct telex access to Commerce offices around the world, assistance in locating foreign distributors and agents plus a great many programs of assistance and counsel to businessmen. Both the State and Federal organizations have been and continue to be most helpful to us in our international trade activity.

It is my opinion that the major void existing in export assistance to small business lies in the lack of personal contacts between the domestic manufacturer and the overseas buyer.

To establish a customer in our domestic market, it is necessary for a manufacturer to become personally involved with the buyer, until such time as it takes his company to become well established in the industry or marketplace. It is even much more important for the domestic manufacturer to become personally involved with a foreign buyer. The foreign buyer must be convinced that his particular set of problems will be satisfactorily handled by the U.S. manufacturer, and that the U.S. manufacturer's quality, service, continuity of supply, competitive pricing, et cetera, will be maintained.

Even though we do have a number of excellent export management and trading companies dealing in overseas markets—there is no substitute for the manufacturing executive giving his personal assurance to the foreign buyer that his company will be a dependable trading partner.

Since we cannot expect foreign buyers to seek us out in this country, we must go to them. This then is a major problem, the financing of foreign business travel. To make a 10-day business trip to the Middle East or Pacific rim countries can involve an upfront cash expenditure of $8,000 to $10,000. This expenditure with only the hope or expectation that business orders will follow after he returns from the trip.

Now, I heard Congressman Wyden throwing around his trillion dollar infrastructure budgets, and I know that we have in the hundreds of billions of dollars that we are struggling with in Washington. So $8,000 or $10,000 doesn't mean very much possibly to some of our legislators in Washington. However, the $8,000 to $10,000 cost of a foreign trade trip might appear as a paltry amount to some, but to the small businessman struggling to meet payroll and taxes, and continually starved for operating capital, $8,000 is a lot of money; an amount that is beyond the average company's ability to risk on a gamble.

It would appear to me that if we are really serious about assisting small business to get a foothold in international trade, we should think about helping financially, either by allowing tax credits to offset part or all of the cost of a limited number of foreign sales trips or provide low-interest rate loans for foreign travel or something along those lines.

Regarding DISC legislation, Western Power does operate a DISC subsidiary. We have some knowledge of the GATT negotiations, and have read some of the proposed alternatives to DISC. Since it would not be possible for most small businesses to establish foreign offices for reasons of lack of operating capital noted above, we would hope that new legislation will allow small businesses, perhaps below $10 million annual sales volume, to continue to operate under existing legislation.

Thank you.

Mr. IRELAND. Thank you, Mr. Bright.

[Mr. Bright's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM L. BRIGHT, PRESIDENT, WESTERN POWER PRODUCTS, INC.

I am the founder and chief executive officer of Western Power Products, Inc., a closely held Oregon Corporation, established in 1958. We employ between 75 and 100 people in the manufacture of high voltage electrical switchgear as used by Electric Power utilities; fiberglass equipment enclosures; power distribution substations and various tools and hardware. Our product lines are backed by over 20 USA patents which have been awarded over the past 18 years. We market our products throughout the USA and to some export countries.

In the 26 year life of Western Power, we have experienced many of the problems common to most similar small businesses—both in the establishment of our product lines in the domestic market and in our involvement in international trade.

In speaking to export problems experienced by small businesses in Oregon (comparable in size and product lines to WPP) I can say first that a great deal of information and specialized assistance is already in existence here—available to any of the several thousand businesses in the state who wish to take advantage of this assistance.

The State of Oregon, Department of Economic Development, International Trade Division headed up by Doug Frengle has an active, full time staff who are in contact with Oregon's prospective exporters on a daily basis. Among their many pieces of reference material is the Oregon Exporters' Handbook, a unique up-to-date reference book which leads the prospective exporter through all phases of exporting—information from how to reach the markets to financing, pricing, travel, etc, etc.

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It is my opinion that the major void existing in export assistance to small business lies in the lack of personal contacts between the domestic manufacturer and the overseas buyer.

To establish a customer in our domestic market, it is necessary for a manufacturer to become personally involved with the buyer—until such time as it takes his company to become well established in the industry or market place. It is even much more important for the domestic manufacturer to become personally involved with a foreign buyer. The foreign buyer must be convinced that his particular set of problems will be satisfactorily handled by the USA manufacturer, and that the USA manufacturer's quality, service, continuity of supply, competitive pricing, etc. will be maintained. Even though we do have a number of excellent export management and trading companies dealing in overseas markets—there is no substitute for the manufacturing executive giving his personal assurance to the foreign buyer that his company will be a dependable trading partner.

Since we cannot expect foreign buyers to seek us out in this country, we must go to them. This then is a major problem, the financing of foreign business travel. To make a 10 day business trip to the Middle East or Pacific Rim Countries can involve an up-front cash expenditure of $8,000 to $10,000—this expenditure with only the hope or expectation that business orders will follow before he leaves on the trip.

The $8,000 to $10,000 cost of a foreign trade trip might appear as a paltry amount to some, but to the small businessman struggling to meet payroll and taxes, and continually starved for operating capital, $8,000 is a lot of money—an amount that is beyond the average company's ability to risk on a gamble.

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Mr. IRELAND. Mr. Smith.

TESTIMONY OF GORDON W. SMITH, CORPORATE CREDIT MANAGER, COLUMBIA MACHINE, INC.

Mr. SMITH. Yes. Mr. Chairman, Congressman Wyden, I appreciate coming here. I will try to be as brief as I can. I have a real important message I want to bring to you.

I am not sure what guidelines you have set when you talk about "small business firms." If the construction industry continues to be depressed, domestically and worldwide, our company will become a small business in the true sense.

Columbia Machine, Inc., is located in Vancouver, Wash. and has been in business since 1937. It is one of the world leaders in the manufacturing of machinery to produce concrete block. Our company has been exporting machinery for over 25 years.

Columbia Machine, Inc. has its home office operation in Vancouver, Wash. It has three domestic subsidiary companies, three foreign subsidiary companies; one in Canada, one in Australia, and one in Mexico, two foreign branch companies, one in Japan and one in New Zealand, and in addition, Columbia Machine, Inc. has sales staff in Costa Rica, Puerto Rico, Hong Kong, England, Holland, and Spain.

Due to our continuing efforts to expand our overseas sales, we have matured as an exporter and find ourselves dealing fairly well in foreign countries, knowing the mechanics of selling, having gained some expertise in shipping and getting paid. We have no problem with language barriers having staff with multilanguage capabilities. Even some of the machinists in our shop have these capabilities, and we call upon them for help.

We do applaud Portland State University in establishing the International Trade Institute. There will always be a continuing need in the international community of the greater Portland area for qualified people, ready to enter into the private and public sector supporting international trade.

I am a part-time lecturer on the staff of Portland State, giving courses in domestic and international credit. The one problem in our international trading effort is the need for assistance in term financing of our sales. In order to explain our position, I would like to present facts about our position. Prior to 1982, our export sales ran from 28 to 32 percent of our total gross sales. In 1983 we anticipate sales of approximately $28 million of which 75 to 80 percent will be export sales.

The economic recession has hit us very hard. We are, of course, directly affected by the ups and downs in the construction industry, 3 years ago we had about 800 employees. We began the year 1983 with 320 employees, of which approximately 100 are overseas.

Although the economic difficulties are worldwide, our export sales have remained and will remain fairly constant. We are truly committed to export sales in that we are servicing customers in 71 countries. Once the customers receive our machinery, they will be a continuing customer purchasing necessary parts. We have found that in selling durable capital goods, we must participate in term financing for three basic reasons.

One, in developing new market areas, we will offer financing as an additional inducement for this sale.

Two, to meet domestic and foreign pricing competition.

Three, to meet the specific needs of a buyer to have a secondary source of capital funding.

When I refer to financing, I am talking about payment terms extending over a period of 12 to 60 months. At the present time, our company is financing purchases in the following countries: Mexico, Panama, Dominican Republic, Spain, Fiji, Costa Rica, Haiti, France, and South Africa.

In previous years, we have financed sales in Jamaica, Colombia, Dominica, Japan, Venezuela, Grenada, and Canada.

Our approach to financing requires that we obtain proper financial statements, commercial credit reports, bank credit reports and reports from our sales staff who have had the on-the-spot contact with the buyer. With few exceptions we will only offer financing in areas where we have our own sales staff and where there is an established market for our type of machinery. Then, if it might become necessary to repossess the machinery, we would be able to resell in the same area.

We handle our foreign financing much the same as we do domestically. We retain local attorneys to prepare contracts and mortgages, to retain title to the machinery, prepare the personal guarantees and in many instances we will obtain a mortgage on the land upon which the plant is situated as additional security for payment.

The range of sales for financing runs from $100,000 to $2 million per transaction. In order to obtain funding, it is normal that we would attempt to limit our risk both in the commercial and political area by obtaining proper insurance coverage. We have not had too much success in obtaining commercial risk policies through the FCIA, Eximbank program.

Today, Columbia Machine, Inc. is involved in financing contracts of overseas sales totaling approximately $7 million. Of this amount, one of our banks obtained an Eximbank guarantee—that contract balance is now about $350,000—and on another transaction, we were able to obtain an FCIA policy, that contract balance is now about $321,000. It is not that we have not wanted to use the facilities of Eximbank and FCIA, but we have not been successful in obtaining the benefits.

Why? For one reason, Eximbank direct loan programs are tailored to the large project situations ranging from about $4 million and up. Our buyers do not fall in this category. As for the FCIA political and commercial risk policies, we have not been able to have much success for the following reasons:

One, their, FCIA's, historical negative position given to the construction industry abroad. I have questioned various officers of Eximbank, and this has been confirmed to me over the years.

Two, their, FCIA's, inability to see the need to the smaller overseas buyer in asking for term financing.

Three, the lack of flexibility in structuring payment terms.

Four, their, FCIA's, negative approach to sales to firms or individuals newly in the field of manufacturing concrete block.

Five, lack of ability to meet foreign country subsidy of financing through lower rates or extended terms.

In the last few weeks we have just finalized sales of machinery to buyers in Trinidad, $2.6 million; Qatar, $860,000; Reunion, a department of France, $1.2 million. We were asked to help in financing the transaction in Trinidad and on approaching our broker to obtain an FCIA policy, we were informed that inasmuch as the buyer, a newly formed company, which could not provide 3 years operating statements, and even with personal guarantees of the principals, with excellent financial statements, and also due to the fact that the sale is related to the construction industry, it would not be realistic to submit the transaction to FCIA.

To solve our dilemma, we then went to other sources of funding through the English Midland Bank Group. We almost lost the sale in Reunion due to the delays we encountered trying to find funding for the buyer. The buyer, after our giving certain price concessions, obtained their own financing in France and has opened a letter of credit for the purchase. The buyer in Qatar asked for assistance in financing. Here again was the situation of a new firm not having been in the business of manufacturing concrete block. We finally succeeded in funding the sale through a branch of a U.S. bank in London with payment terms in Euro-Swiss francs.

One of our international salesmen has just returned from an extended trip and has an example of what we meet. He reported that when he was in Israel trying to commit a buyer to a sale, the buyer asked, "What financing terms do you offer since financing terms are offered by your competitors in France, Sweden, Finland, Germany, and Japan?" We do not have any of our machinery at the present time in Israel and we will be having to make a decision in the very near future as to what we are going to do to secure this order.

Here again, we approach people who have not been in the production of concrete block and would not have 3 years operating statements and we feel that it would be useless to approach FCIA for a policy on this transaction.

There are other alternatives to risk insurance in the private sector. Such firms as AIG, AFIA, INA, and others are opening up to offering coverage. As a general rule, these firms will not look at an individual transaction but want to have all of your overseas sales much the same as would be required for an FCIA master policy. They do require minimum annual premiums in the area of $50,000 or more.

This field in the private sector undoubtedly will increase with the word that we have now received that the 40 to 50 private insurance companies now participating with FCIA will be terminating their relationship with FCIA.

We, along with five other small- to medium-sized exporting companies, were recently interviewed by some of the staff from George Washington University concerning our need for assistance in export financing. A copy of this report, entitled "Export Credit Financing—A Cost-Benefit Analysis to the Federal and State Treasuries" has been handed to you for you and your staff's review. I want to specifically refer to pages 58, 59, and 60 which summarize our mutual views.

Points one and two relate directly to subsidized export financing by foreign nations. In 1982, we lost two sales because of this. The conclusions on page 60 directly are in line with our thinking.

On June 2, 1982, Congressman Bonker and Senator Hatfield cosponsored a meeting in Portland on international trade. They were accompanied by other Members of Congress and high-level people from the Department of Commerce, including Mr. Richard McElheny, Director General of U.S. and Foreign Commercial Service who is devoting much time to the export opportunities for small business. I understand that he was the person who retained Dr. Amling to make the report just referred to.

Mr. McElheny indicated to me in response to an inquiry to him that he anticipates changes in the Export-Import Bank FCIA risk program as a direct result of the referred to report. We respectfully request that your subcommittee take up the hue and cry on our behalf in this regard.

I have also handed to you copies of a recent survey taken by the Washington District Export Counsel from its members indicating their attitude toward Eximbank and FCIA. I think if you will look at the results of the survey you will see that the exporters feel that the program should continue but certain changes should be made to reflect the needs of the small business exporters in handling export financing and exports in general.

I have referred to the recent meeting on international trade at which the speakers offered to all of the exporters and those in attendance a challenge to go out into the world and meet the requirements of the buyers in the world and expand our areas of export not only to help increase sales of our own operation during the time of our recession but to help in turning the imbalance of trade.

Gentlemen, as a representative of an exporting firm involved in financing, I want to pass this challenge back to you and sincerely hope that you can discuss this with other Members of Congress or the Commerce Department and in particular the handling of the approval on the Eximbank reauthorization legislation which is now before the Congress.

Again, I want to thank you for the opportunity of appearing before you.

Mr. **Ireland**. Thank you very much.

[Mr. Smith's prepared statement, with attachments, follows:]

PREPARED STATEMENT OF GORDON W. SMITH, CORPORATE CREDIT MANAGER, COLUMBIA MACHINE, INC.

Mr. Congressman, Chairman Ireland, and other members of the subcommittee, I want to express my appreciation to you for the opportunity to participate in these proceedings.

I am not sure what guidelines you have set when you talk about "small business firms". If the construction industry continues to be depressed, domestically and world wide, our company will become a small business in the true sense.

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The one problem in our international trading effort is the need for assistance in term financing of our sales.

In order to explain our position, I would like to present facts about our position.

Prior to 1982 our export sales ran from 28 to 32 percent of our total gross sales. In 1983 we anticipate sales of approximately $28 million of which 75 to 80 percent will be export sales.

The economic recession has hit us very hard. We are, of course, directly affected by the ups and downs in the construction industry, 3 years ago we had about 800 employees. We began the year 1983 with 320 employees. Although the economic difficulties are worldwide, our export sales have remained and will remain fairly constant. We are truly committed to export sales in that we are servicing customers in 71 countries. Once the customers receive our machinery, they will be a continuing customer purchasing necessary parts.

We have found that in selling durable capital goods we must participate in term financing for 3 basic reasons.

(1) In developing new market areas we will offer financing as an additional inducement for the sale.

(2) To meet domestic and foreign pricing competition.

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Mexico, Panama, Dominican Republic, Spain, Fiji, Costa Rica, Haiti, France, and South Africa.

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Then, if it might become necessary to repossess the machinery we would be able to re-sell in the same area.

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Today Columbia Machine, Inc., is involved in financing contracts of overseas sales totalling approximately $7,900,000. Of this amount, one of our banks obtained an Exim-Bank guarantee (that contract balance is now about $350,000) and on another transaction we were able to obtain an FCIA policy (that contract balance is now about $321,000). It is not that we have not wanted to use the facilities of Exim-Bank and FCIA but we have not been successful in obtaining the benefits. Why? For one reason Exim-Bank direct loan programs are tailored to the large project situations ranging from about $4 million and up. Our buyers do not fall in this category. As for the FCIA political and commercial risk policies, we have not been able to have much success for the following reasons.

(1) Their (FCIA) historical negative position given to the construction industry abroad.

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I have referred to the recent meeting on international trade at which the speakers offered to all of the exporters and those in attendance a challenge to go out into the world and meet the requirements of the buyers in the world and expand our areas of export not only help increase sales of our own operation during the time of our recession but to help in turning the imbalance of trade.

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Again, I want to thank you for the opportunity of appearing before you.

Columbia HISTORY

Columbia was founded in Vancouver, Washington, in 1937. We made, repaired, and serviced the concrete block equipment of that day. We learned the importance of building rugged, reliable machinery and providing first-class service.

Our experience with the manually-operated block machine of those years convinced us of the industry's need for a hydraulically-operated machine. The block industry needed a machine that would semi-automatically produce 8 x 4 x 12 inch blocks, two at a time. The machine had to be engineered for supreme durability. It also had to be reliable and simple to operate.

By 1945, we had perfected, manufactured, and sold that block machine, our first.

Shortly after that, we moved ahead again. We pioneered and produced the industry's first hydraulic, semi-automatic machine that would make standard 8 x 8 x 16 inch blocks.

Columbia's block machines were accepted with enthusiasm. We had established what would become the key to Columbia's success . . . to seek out and accurately identify the industry's needs and translate them into appropriate production equipment designed for efficient, reliable operation at reasonable cost. And to then provide prompt, quality service for every piece of equipment we sell.

From the beginning, Columbia set a course for industry leadership. Still committed to the same "find the need and fill it" philosophy, Columbia remains the leader in the concrete products manufacturing industry.

Today, we offer the most complete line of automated block plant equipment in the world.

Columbia research and development begins in the field. We gather ideas and analyze problems, study the many plant automation requirements, and determine then how we can best help our customers increase their profits.

At this point, our product engineering department takes over. Here, ideas are translated into the realities of design, and design drawings become practical, working, prototype systems. Creative engineers in our electronics department apply the latest technology to our production machinery to provide the greatest degree of plant efficiency.

Columbia's range of electronic controls is tailored to our customers' need. We offer everything from simple vacuum tubes to state-of-the-art electronic sophistication. Columbia customers are provided with controls that are matched to their production and maintenance requirements. Our controls are designed and built in our own plant by skilled technicians with years of know-how in both electronics and in the block industry. For the block producer, this means a consistent, high-quality concrete product.

Columbia is the established leader in the development of general plant design and automation.

During a 10-20 year period of automation development, the price of concrete products remained relatively unchanged. This was a direct result of increased production efficiency by use of automation and a reduction of required manpower.

Columbia's imaginative engineering and a close, cooperative relationship with our customers has resulted in the highly developed level of automation in today's modern block plants. We're proud of our contributions. And we look forward to meeting the challenges of the future.

When engineering and testing is completed, the manufacturing process begins.

Columbia's highly specialized machine shop is equipped with all the necessary engine and turret lathes, internal and external grinders and the many other precision tools needed to make certain that the final product incorporates the rugged durability and dependability that have become Columbia's hallmark.

Fabrication is a critical step. Heavy steel plate must be cut, formed, and welded into a basic unit of rugged strength. Press brakes, planographs, shears, and sophisticated welding procedures are the heart and muscle of Columbia's fabricating capabilities.

Heat treating controls the changes in the physical properties of special alloy steels to add wear resistance and strength to Columbia products. This is especially important to long-wearing Columbia molds.

At the assembly area, finished, inspected parts, large and small, arrive from the various manufacturing and parts centers, from the stock room, the fabrication department, the machine, electrical, and hydraulic shops. Teams of skilled, experienced workmen carefully assemble each piece of Columbia equipment.

Finally, each piece of machinery must undergo rigorous testing and close inspection to make certain that it will meet every technical and operational specification, not only in quality control, but on the job.

The customer is assured that the finest materials, technology, and work procedures have been used in building his Columbia equipment.

That means long equipment life, low maintenance and consistent production efficiency.

Most of all, it means profit to our customers.

Columbia's marketing goal is uncluttered. We work to make certain that every customer returns, satisfied and confident in his purchase of Columbia equipment.

Columbia produces the world's most complete line of block machines. This wide range of block machines is backed by an extremely versatile, comprehensive line of accessories, from automatic batching systems to the cuber, and all the necessary equipment in between. We even offer a lift truck to move the finished cubes around the yard.

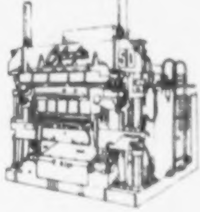
A knowledgeable, helpful staff is available to work closely with each customer or prospect to assist him in developing practical, workable solutions to his particular production requirements.

A Columbia-staffed Technical School offers a continuous, periodic program to train our customers' employees in the operation and maintenance of Columbia equipment and in general block-making technology.

Vancouver, Washington, location of Columbia's home office and main manufacturing facility, is at the hub of a world-wide transportation network. A world-class, deep water port, a major international air terminal, rail lines and interstate expressways are within minutes of the plant. We can easily serve our domestic customers and our rapidly-growing international clientele.

Parts and service centers in Illinois, California, Florida, and Canada, Australia, New Zealand, Japan, Europe, and sales and service representation throughout the world, enable us to maintain a prompt, top-quality customer care program.

Customers in over 65 countries throughout the world will back that statement.



EXPORT CREDIT FINANCING:
A Cost-Benefit Analysis to the
Federal and State Treasuries

Frederick Amling
Fariborz Ghadar
Yoon Park

of the

George Washington University
School of Government and
Business Administration

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Technical Assistance
Provided by:

Marti Kirchner
Lisa Thomas
Marie E. Dunlopway

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ACKNOWLEDGEMENTS

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The District Export Councils (DECs) are a volunteer organization with over 1,800 business and trade experts as members. The DECs serve as a vital link to the U.S. Department of Commerce serving under the direction of the U.S. and Foreign Commercial Service. Bringing unique resources to the Department's export expansion efforts, each DEC serves as the local contact within their business communities to stimulate interest in overseas markets, supports export awareness and expansion programs and services, and provides an important source of information on export issues under consideration by the Department and the President's Export Council.

District Export Councils are involved in a wide variety of export programs within their local communities. DECs may call on prospective exporters to counsel them in the "ABCs" of exporting, sponsor workshops with the Department's District Offices on international subjects, act as "speakers' bureaus" so that local business organizations may tap the DECs' wide range of expertise, sponsor World Trade Week activities, and promote greater awareness of the assistance available in their community for U.S. companies who are considering the world market.

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EXECUTIVE SUMMARY

Small and medium-sized U.S. businesses are finding it difficult to compete in export markets because of low, subsidized financing provided foreign competitors by their governments. The effect has been a loss of sales and an increase in unemployment for the American firm.

METHODOLOGY

Interviews were conducted through this study with the executives of six U.S. firms, geographically disbursed, to evaluate the export credit problem, examine possible solutions, and consider the relationship between the cost of export credit financing, offered by either the state or federal government, and benefits generated through increased employment and taxes created by increased sales. Data for each case were developed based on the following assumptions: 1) interest rates offered on direct loans ranged from 6 to 10 percent, — such rates are thought to be competitive with foreign rates — 2) additionality assumptions ranged from 40 to 60 percent, and 3) the multiplier effect ranged from two to three. Assumptions for additionality and the multiplier effect were obtained from a summary of findings in a literature review.

The case information was then applied to five alternative export financing stimuli developed from suggestions obtained from U.S. District Export Councils. These are:

(1) A direct loan by a federal institution for 75 percent of the value of the contract.

2) A direct interest rate equalization payment by a federal organization, such payments to offset the differential between the OECD arrangement interest rate and the existing market rate.

) A state-chartered "Eximbank" that would make direct loans to exporters.

) A state facility that would make interest equalization payments to entities offering financing.

A U.S. lender that would offer a competitive rate whereby all interest costs above the competitive rate and up to the market rate would constitute a direct tax credit.

The authors also analyzed the impact that loan guarantee programs by federal an state governments would have on exports by the six companies interviewed.

INTERVIEW FINDINGS

In-depth interviews with company executives in the six cases reveal that lack o competitive export financing is a very real problem resulting in lost sales and an increas in unemployment. The executives find Eximbank financing is inadequate, untimely, o unavailable. The executives believe that federal officials are either unaware of or ar unconcerned with their problems and that there exists a communication gap betwee business and government on this issue.

There is an extreme sense of urgency about the need for help. Generally, th executives fear for the future success of their firms because of the competitiv strategies developed by many foreign countries, the lure of U.S. factories to mov abroad, and the feeling that the United States is the only country playing by the rules.

The executives believe that the solution to the problem is increasing th availability of competitive financing, based on terms and interest rates quoted to them advance, from the U.S. Export-Import Bank (Eximbank). They also stressed th insurance for loans against political risk should be more readily available from th Foreign Credit Insurance Association (FCIA), and this would help some fir dramatically. The executives also suggested that each company be assigned government contact person who would help them arrange whatever help was availabl

CASE STUDY ANALYSIS

The analysis of the six companies' bids that were quality and price competiti indicate that a major cause of loss of contracts is due to a lack of competitive expo financing. The majority of firms would be able to compete if export financing were mo readily available.

The individual case studies analyzed the loss of specific contracts and their impact on the state, and federal treasury, and on jobs in the U.S. economy. The return to the U.S. economy for direct export credit financing if offered at even as low as 6, 8 and 10 percent financing for every dollar invested would have yielded an annual return of 11 to 21 percent to federal and state treasuries combined assuming 40 percent additionality and a multiplier of 2.0 and would have returned the original investment. With 60 percent additionality and a 3.0 multiplier, the rate of return to the federal and state treasuries would rise to a range of 21 to 46 percent. The returns for the U.S. treasury revenue stream alone are estimated to be not much lower. The returns for the states alone were not as high as to the federal treasury. In general, however, it is clear that under any reasonable set of assumptions, the return on export credit financing was high enough to justify its offering.

The return on investment to the U.S. treasury on an export loan would average 20 percent. This average figure is based on the cases studied and assumes a U.S. treasury lending rate of 8 percent, a multiplier of 2.5 and an additionality assumption of 50 percent. The 8 percent rate would be competitive with most other countries. If a 6 percent lending rate were assumed— a rate that would meet and compete with all foreign lending rates— the return to the treasury would decline to 18 percent. Simply stated this means that it would be profitable for the U.S. treasury to invest in export loans particularly since the bulk of the returns would be received in the first year. The results are a positive effect on employment.

The return to the federal treasury was higher than the return to state treasuries, yet states with individual or corporate income taxes could, in the absence of acceptable federal export financing, justify the offering of export financing to their constituents.

A loan guarantee would make it possible for small and medium-sized firms to obtain credit at an affordable rate whereas without the guarantee the lending rate would be prohibitive or unavailable.

PART I

STATEMENT OF PROBLEM

High U.S. interest rates, a strong dollar and a worldwide recession have made it difficult for U.S. exporters in general and capital goods exporters in particular to sell their products in the international marketplace. This problem is compounded by the fact that many foreign governments have offered a wide variety of export financing schemes that subsidize their own exports, while U.S. export financing programs are not as extensive. These subsidized exports are in direct competition with U.S. manufactured products, the great majority of which are competitive in price and quality but not financing. The net effect has been the loss of contracts due to the lack of competitive financing available to U.S. manufacturers.

This environment adversely affects not only traditional exporters who may use fixed rate official U.S. export financing credits through the Eximbank, but also small and medium sized U.S. exporters with smaller transactions who do not have access to such official export credit.

This report was undertaken to determine the extent to which export financing problems have affected six small and medium-sized manufacturing firms. Executives of export firms in the private sector offered five export financing alternatives designed to assist U.S. export producers to meet this apparently growing problem. Based on the facts obtained from the interviews, the best alternative will be indicated along with a ranking of the effectiveness all the alternatives would have on a sample of six diverse U.S. small and medium-sized exporters. The report also evaluates the costs and benefits of such schemes on the U.S. economy. The analysis is based on the cost of these incentives to the U.S. treasury, the state treasuries and the U.S. economy, along with the benefits derived from these financial incentives in the form of increased corporate and individual income taxes, increased state and local taxes, as well as the impact on unemployment and its costs to these entities.

As part of this report, a comprehensive literature survey of the subject was undertaken. This is attached to the report as Annexes I and II. The literature review includes studies on the macro impact of export incentives as well as the specific impact of export incentives on various industries and a cross range of reports arguing for and against the use of export incentives. In general findings for additionality[*] in exports due to competitive financing in capital goods industries range from 30 to 70 percent. The more probable range is between 50 and 60 percent — that is, some 50 to 60 percent of exports were created because of export financing schemes. Studies on the effect of export incentives on the national economy indicate that the multiplier effect[**] in the economy generally ranges from 1.5 to 3.5 with a more probable range of 2.0 to 3.0. These data are used in Part III to calculate the cost-benefit of various export incentive schemes to the state, U.S. treasury, and U.S. economy.

In Part IV of the report, the analysis of six case studies are summarized. The cases are of companies that have lost contracts due to lack of export financing incentives. Dr. Amling and Dr. Ghadar interviewed chief executive officers of these six corporations representing industries from specialty tools to oil service equipment based in five different states: Louisiana, Michigan, Ohio, Texas and Washington. Annex III lists the names and titles of persons interviewed. The in-depth case methodology brought a sense of realism to the analysis. Complete knowledge about the competitive marketplace, or real world, is extremely important to understanding the incentives being recommended along with their implementation.

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[*] Additionality represents the marginal increase in exports created by the export incentive.

[**] The multiplier effect relates to the final effect on the economy. A dollar initially spent in the economy generates $2.50 of additional dollars spent in the economy if there is a 2.5 muliplier.

PART II

FIVE ALTERNATIVE EXPORT FINANCING SCHEMES FOR U.S. EXPORTERS

This report reviews the impact of five export financing alternatives on six U.S. small and medium-sized exporters. The alternatives were developed based on a task force of executives of export firms among the District Export Council. The report evaluates the costs and benefits that such schemes would have on the income stream of the U.S. treasury and the state treasuries combined. The analysis considers the cost of the incentives to the U.S. treasury, the state's treasury, and the U.S. economy and examines the benefits derived from the additional exports generated and their effect on the economy through increased individual and corporate taxes and decreased unemployment expenditures by the federal and state governments.

The facts obtained for each case were used to determine the cost effect on the U.S. and state treasuries as a result of the loss of sales. Loss of sales were examined to measure the loss of jobs for each company and the loss of revenues to the federal and state treasuries.

Data for each case appear in a summary table where calculations are presented along with explanatory footnotes. Such data were then applied to the following five alternative export financing schemes provided by the members of the District Export Councils as possible solutions to the export financing problem:

(1) A direct loan by a federal institution, such as the Eximbank, for 75 percent of the value of the contract.

(2) A direct interest rate equalization payment by a federal organization such as the Eximbank.

(3) A state export bank that would make direct loans to exporters.

(4) A state-chartered "Eximbank" that would assist exporters. The state would buy

down the interest rate from the market rate offered by commercial banks to a lower subsidized rate competitive with internationally offered export financing rates.

(5) A U.S. lender, either a commercial bank or a supplier of funds, that would offer a competitive rate whereby all interest costs above the competitive rate and up to the market rate would constitute a direct tax credit. Under such a mechanism, the tax credit could be computed on the basis of a monthly average of the 6 month U.S. Treasury bill interest rate plus the interest spread of the commercial bank. The Eximbank could verify the competitive rate offered by the U.S. competitors by means of a certificate. Such a certificate could be used to substantiate the tax credit.

The report will not deal with the legislative and operational needs of the above export financial incentives. What will be addressed, in the following six case studies, is the cost-benefit of each scheme to the federal and state treasury.

THE ATTRACTIVENESS OF EACH FINANCING ALTERNATIVE

OVERVIEW. With the exception of alternative (1) where the federal government would give a direct loan for 75 percent of the value of the export contract, and alternative (3) where the state offer. direct loans, all the finance options involve interest rate equalization schemes. These schemes vary in the fact that different state or federal agencies would pay for the subsidies. We analyzed alternative (1) and concluded that the return to the federal treasury for Eximbank financing would have an annual return on federal government funds of between 13 and 34 percent. This would be an attractive investment for federal funds that cost some 12 percent. The federal government pays 12 cents for every dollar borrowed, yet it would receive a return of 13 to 34 percent each year for funds spent on such programs.

A DIRECT LOAN ALTERNATIVE

For direct loans given by a federal agency, assuming a 6 percent interest rate, a multiplier of 2.5, and an additionality of .5, the internal rate of return to the U.S. treasury would be 18 percent. This 6 percent rate would be below the lending rates provided by foreign governments. An 8 percent lending rate, slightly above foreign rates, would provide a 20 percent return on the loans given by the U.S. treasury. This would be a good investment to the treasury as well as stimulate employment.

Alternative scheme 3, where state export banks would offer direct loans were not as attractive. The additional exports do not, in all cases, generate sufficient revenue to the state treasuries to justify state organizations making direct loans. In fact while states such as Ohio and Michigan could obtain returns 1 to 3.5 percent above the rate they charge on the loans, other states such as Texas, simply cannot justify such schemes on the basis of revenues to its state treasury.

INTEREST RATE EQUALIZATION ALTERNATIVE

Alternative scheme (2), a direct federal interest equalization payment; alternative scheme (4), a state Eximbank interest buy-down; and alternative scheme (5), a direct tax credit offered by the federal government to lenders for the interest cost above its competitive rate would generate a positive cash flow in year 1 to the federal treasury since the revenue generated in year 1, the export year, far exceed any expected future interest rate equalization costs. The question then is not "are such schemes justifiable?," but "which ones cost the least to the federal treasury?" In fact, our analysis of alternative scheme (2), a direct federal equalization interest payment; and alterative scheme (4), a state "Eximbank" buy down of the interest rate, shows that the U.S. treasury would be economically justified in offering annual interest equalization subsidies that range from 4 to 25 percent of the value of the loan depending on assumptions of additionality and the extent of the multiplier effect in the economy, while the state treasuries were justified in interest buy downs of only .1 to 3 percent annually.

From the states' viewpoint export financing schemes, where the federal government pays for interest rate equalization schemes either by direct payments, tax-free revenue bonds, or direct tax credits to commercial banks, are more financially desirable to the states. Schemes requiring state funds are obviously less desirable from the state's perspective. Thus from the state's point of view alternatives (2) direct federal agencies interest equalization payments and (5) a direct tax credit offered by the federal government to lenders for the interest cost above the competitive rate are preferable to alternative (4) where the state pays for the interest buy-down. In states where state income and corporate taxes are limited, the extent of interest subsidy for export financing that is justified is also limited. States with higher income and corporate taxes will find alternative (4) a state "Eximbank" buy-down, a viable option. Alternative (5), a direct tax credit offered by the federal government to lenders for the interest cost above the competitive rate, has an element of uncertainty, since long-term export financing is offered with fluctuating short-term interest rates. No doubt, federal agencies would prefer alternative (4) where the state pays for the interest equalization while states would prefer option (2) or (5) where federal agencies pay for the interest equalization costs.

LOAN GUARANTEE PROGRAMS

Loan guarantees by federal or state governments would in effect reduce the cost of loans to small and medium-sized companies by approximately 4 percent annually. In our sample of companies, depending on the additionality and multiplier assumption, the federal treasury would receive 25 to 55 cents on every dollar of loan guaranteed in the first year in the form of increased tax revenue, and decreased unemployment payments. The cost to federal and state treasuries for such guarantees is related to the potential defaults on these loans. Since historic rates of loan defaults are orders of magnitude lower than the 25 to 55 percent, and since the federal treasury is the benefactor of increased taxes and decreased unemployment payments, it would be advantageous in almost all cases for the federal treasury to offer guarantees on export loans. This holds unless the default rate increases to above 25 percent or an average of one in four loans.

The chief executive officers of the companies interviewed were all in agreement and expressed their opinion that direct interest equalization programs paid for by the federal government agencies would be the most desirable option to cope with the threat of low-cost foreign export credit financing arrangements. They also suggested that federal loan guarantees would help. This is consistent with our findings, as will be seen as the five financing alternatives are applied to the six cases in Part III.

PART III

CASE ANALYSIS OF COST/BENEFIT RELATIONSHIPS OF EXPORT CREDIT FINANCING

COLUMBIA MACHINE COMPANY

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Columbia Machine Inc. in Vancouver, Washington where they met with Fred Neth, Sr., Chairman of the Board; Walter Neth, Vice President—Special Products; Gordon Smith, Corporate Credit Manager; and John Klattenhoff, Sales Manager, International Sales Division.

STATE OF THE COMPANY

Columbia is a medium-sized firm that manufactures a complete line of machines designed to fabricate building blocks for use in the construction industry, particularly in low cost housing. Prices for its equipment range from $56,000 to $900,000 ex factory and before financing. The total package, including financing, may be as high as $1.5 million. These prices are at the higher end of the industry pricing scale. Columbia equipment, however, produces a higher quality finished product than its competitors, enabling the buyer to lower actual concrete block production costs. The equipment produces more concrete blocks per hour, produces a smoother finish and is load-bearing. Columbia is competitive in world markets and currently does business in 71 countries. The largest facility is located in the state of Washington where it employed, until last year, some 700 people. Worldwide, it employed 900 people, but that figure has been cut back to 650 worldwide in the past year.

THE INDUSTRY

Columbia's major competitor in the United States is Besser which for years has been the largest domestic producer of this type of construction equipment. According to Columbia, the main differences between Besser and Columbia are that Besser does not make a complete line of equipment and uses a mechanical process whereas Columbia does make a full line and uses a hydraulic and electronic process. Over the years, Columbia has been growing steadily and the two companies now have about the same volume.

Internationally, Columbia faces competition primarily from companies in Germany, Italy and France. The markets in which the toughest competition is currently taking place are the West Indies, Mexico, South America, and Japan.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates, and the buying decision is based on product quality and price.

Columbia has been financing its sales from internal funds for more than twenty years. Through its local bank, it has a line of credit which it uses to offer financing. In general, it will submit a contract bid with rates well above prime. The foreign buyers, until recently, were accepting these terms because the Columbia rate was usually lower than the local interest rate in the markets in which it operated. The terms range from two to five years usually with a 90 day grace period. The company presently has a loan portfolio in the high seven digit figures.

Columbia has done little work with the FCIA because its equipment purchasers are usually small and do not have financial statements that would be acceptable to FCIA. In addition, it has had only limited dealings with the Eximbank because its projects are too small to meet Eximbank guidelines. Columbia did obtain an Eximbank guarantee on a project in Reunion but believes that this was only because the U.S. government had an interest in the project. The guarantee shifted recourse from Columbia to the Eximbank and thus increased Columbia's own line of credit with its bank.

In the past few years, as interest rates have gone up, foreign competition has become keener and more recently as the dollar increased in value, the company has become less able to finance its sales. In addition, with a depressed domestic housing industry, it must rely more on its overseas sales to stay in business. Self-financing is becoming more of a problem because Columbia's local bank is beginning to shy away from any international involvement. As a result, Columbia's rates are not competitive against the Germans who, according to Columbia, are offering a subsidized rate of 9 percent in U.S. dollars, or the French who, on a project in Kenya, offered a subsidized rate of 6 percent in French francs.

Currently Columbia faces a contract bid to sell equipment in Germany to a company that has stated it wants Columbia's product. It will be too costly to finance the sale at current rates. In 1982, Columbia was actively looking into the possibility of licensing in Holland where it was assured that it could get 8 percent financing for exports. Its costs would be reduced, also, due to lower freight charges and duties.

IMPACT ON THE FIRM

Columbia had $27 million in sales in 1978, $48 million in 1979, $38 million in 1980 and anticipates sales of $26 million this year. The recent reduction in sales has forced it to reduce its workforce. Columbia's difficulties are twofold. First, its per unit sales are low therefore Eximbank financing is not available. Second, the buyers of the equipment are usually small and do not have established lines of credit. Thus Columbia cannot get FCIA insurance. This is a typical example of how medium-sized businesses are experiencing difficulties in obtaining export credit financing. If export credit financing were made available to Columbia, it would improve its ability to increase exports and prevent further worker lay-offs. A government guarantee to the banks would help to make this medium-sized firm competitive.

The impact of a loss of one million dollar of sales by this company on the state and federal treasuries is shown in Table 1.

Columbia Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $1 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 25 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 8 percent. The combined IRR to the federal and state treasuries would have been 25 percent.

The analysis in Table 2 assumes a loan of $750,000 paid by the federal or state treasury. This amount is dispersed in year zero — in other words the beginning of year one — and is a cash outflow as a result of the loan by the agency involved. (See column 2.) Column 3 shows the loan repayment schedule used which in this case is five equal annual payments of $150,000 commencing at the end of year 1. Column 4 calculates the interest payments received at 8 percent on the outstanding loan amount by the borrower. Column 5 is the summation of columns 3 and 4. The first line of columns 6, 7, and 8 show the revenue received by the federal treasury, state treasury, and both combined in year one as a result of the reversal of tax outflows. This data was calculated in Table 1 and represents the cumulative impact of lost taxes and unemployment costs. In this case the gain to the federal treasury is $187,916 and the gain to the state is $4,305. The combined gain therefore totals $192,225. These figures are multiplied by the multiplier figure of 2.5 and the additionality of 50 percent (.5) assumed in this specific case giving positive cash flows to the federal

Table 1

COLUMBIA MACHINE COMPANY

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF $1 MILLION IN EXPORT SALES

	Federal	State	Total
Federal income taxes lost	$65,304[1]		$65,304
State income taxes lost		$ 0[2]	
FICA lost	53,587[3]		53,587
Unemployment compensation paid	29,925[4]		29,925
Sales tax lost		4,309[5]	4,309
Corporate income taxes lost	39,100[6]	0[7]	39,100
TOTAL	$187,916	$ 4,309	$192,225

Notes:

1) According to Columbia, approximately 40 percent of its sales price is allocable to labor co The average annual wages received by employees, including fringe benefits, is $30,000. Us this as an average base, federal income taxes were based on the 1981 Tax Tables for marr persons filing jointly claiming two dependents and not itemizing deductions. Federal income t computed in this manner was $4,899 per man year X 13.3 man years on a $1 million contract.

2) The state of Washington has no individual state income tax.

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 perce contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32, of income. The computation is 40 percent X $1,000,000 X 13.4 percent, or $53,587.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a perio six months or a total of $2,250 per laid off employee per year (13.3 X $2,250 = $29,925). assumed that the indirect impact of unemployment compensation paid is on the fec treasury. Unemployment payments are made by the firm and subtracted from the compa revenue, thus reducing federal taxes. These payments go to the federal and state unemplo benefit accounts and are disbursed by the state. However, the impact of such payments i increase in unemployment payments by the firm, 50 percent of which comes from the fed treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Table compiled by the Internal Revenue Service and were based on total income of $30,000 with family members or $324 per worker ($324 X 13.3 = $4,309).

6) Corporate income tax was based on an 8 1/2 percent profit which was Columbia's estim profit rate in 1982 on sales. Profits were taxed at 46 percent by the federal governm ($1,000,000 X 8.5 percent X 46 percent = 39,100)

7) The state of Washington has no state tax on corporations.

Table 2

COLUMBIA MACHINE COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(1,000's)

Column (1) Yr	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings & Revenues to Federal Treasury	(7) Savings & Revenues to State Treasury	(8) Savings & Revenues to Federal and State Combined	(9) Federal Net Outlay	Principal + Interest	(10) State Net Outlay	Principal + Interest	(11) Both Net Outlay	Principal + Interest
0	$750				$235[a]	$ 5[c]	$240[e]	$515		$745		$510	
1		$150	$60	$210	210[b]	210[d]	210		$210		$210		$210
2		150	48	198	198	198	198		198		198		198
3		150	36	186	186	186	186		186		186		186
4		150	24	174	174	174	174		174		174		174
5		150	12	162	162	162	162		162		162		162
								Internal Rate of Return %	25		8		25

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[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $188,000, a multiplier of 2.5, and an additionality ratio of .5 obtaining a figure of $235,000.

[b] This represents an annual repayment of the loan with $150,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $4,000, a multiplier of 2.5, and an additionality rate of .5.

[d] This was obtained from the data in Table 1 and is considered to be revenue to the state.

This case represents the case where a state chartered "Eximbank" makes the loan (Scheme 3).

[e] The figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

treasury, state treasury, and both combined of $235,000, $5,000, and $240,000 respectively in year one. The remaining lines on columns 6, 7, and 8 represent principal and interest payments on the loan. The net outlay and revenue to the state and federal treasuries and both combined are shown in columns 9, 10, and 11.

Columns 9, 10, and 11 — the net outlay of funds and the repayment of the loan with interest — are presented for federal and state treasuries and both combined. To measure the attractiveness of each scheme it was necessary to calculate the rate of return that would be earned on the amount invested in the loan to the company by either the federal or state treasuries. The calculation used to measure the return on an uneven flow of revenue is the internal rate of return (IRR). When the discounted cash flow rate is found that makes the stream of earnings equal to that of the stream of expenses (in this case the loan) the IRR is established. This return is a measure of what is earned annually on the investment which is the loan made by the appropriate agency.

The internal rate of return (IRR) of the revenue stream of columns 9, 10, and 11 are shown on the bottom line of the table and are 25, 8, and 25 percent for the federal treasury, state treasury, and a combined return for both treasuries respectively. This figure implies that for example in column 9 if the federal treasury had actually loaned $750,000 for financing $1 million of exports, assuming a 50 percent additionality and a 2.5 multiplier, with a five year equal annual loan repayment schedule at an interest rate of 8 percent it would in effect have received an annual return on its loan of 25 percent. (This is also the discounted rate that gives a zero net present value to the stream of earnings.) This is a rather favorable return to the federal treasury. This analysis was used in all subsequent case studies.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in Colombia Table 3. As can be seen, the IRR to the federal treasury ranges from 15 to 42 percent. Thus, given the federal borrowing rate, a direct export loan financing scheme offering even 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state

Table 3

COLUMBIA MACHINE COMPANY

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES*

Federal Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
M \ A**	40	50	60	40	50	60	40	50	60
2	15	20	21	18	23	24	20	25	27
2.5	20	22	27	23	25	30	25	28	33
3	21	27	35	24	30	38	27	33	42

State Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
	40	50	60	40	50	60	40	50	60
2	6	6	6	8	8	8	10	10	10
2.5	6	6	6	8	8	8	10	10	10
3	6	6	7	8	8	8	10	10	10

Federal and State Treasuries Combined

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
	40	50	60	40	50	60	40	50	60
2	15	20	21	18	23	24	20	25	27
2.5	20	22	27	23	25	30	25	28	33
3	21	27	35	24	30	38	27	33	42

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*for a 75 percent export financing loan at 6, 8, and 10 percent, interest for various multiplier and additionality assumptions.

** 'A' denotes additionality in percent; 'M' denotes multiplier effect.

treasury, however, is only marginally higher than the interest rate at which they offer the funds. This is primarily due to the fact that the state of Washington has no individual or corporate state taxes.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of Columbia Machine Company, the federally subsidized interest rate schemes were justifiable within all of the multiplier and additionality assumptions. Given the fact that a loan of $750,000 would generate (in our example of Table 2) $235,000 or about 30 percent of the loan value in tax revenues and decreased unemployment expenditures in year one, assuming these funds were placed in an account earning 10 percent annually then during the five years duration of the loan the federal treasury would be able to offer an average annual interest equalization subsidy of 15 percent annually of the value of the loan. In fact the varying additionality and multiplier rates assumed in our cases made annual interest equalization subsidies of 10 to 25 percent of loan value justifiable to the federal treasury. The state treasury however did not generate enough additional revenues to justify even an annual 1 percent interest rate equalization subsidy.

In this case, since in year 1 the loans would generate $235,000 to the federal treasury, loan guarantees would be justifiable if less than a third were defaulted. From the state's point of view since only $5,000 of revenue is generated default rates of even one percent would make state loan guarantees unjustifiable.

Thus in the case of Columbia Machine Company the results for each alternatives are summarized.

- Scheme 1 Direct export loan by federal government would yield an annual return to the federal treasury of 15 to 42 percent.

- Scheme 2 Direct interest rate equalization payments by a federal organization was justified by an amount of 10 to 25 percent.

- Scheme 3 Direct export loan by state government would yield an annual return only marginally higher than the interest rate charged on the loan.

- Scheme 4 State buy down of interest rates to market were only justified by less than one percent of the outstanding value of the loan annually.

- Scheme 5 Federal tax breaks on interest equalization schemes justified from 10 to 25 percent annually.

- Export loan guarantees by the federal government are justifiable if defaults do not exceed 25 to 55 percent of loans.

- Export loan guarantee by state governments are justifiable if defaults do not exceed .5 to 1 percent of loans.

THE CROSS COMPANY

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Ralph E. Cross, Jr., President; Robert T. Jeffares, Vice President-Finance and Treasurer, Cross & Trecker Corporation; Robert H. Lambertsen, Vice President Marketing and Thomas Evans, Sales Manager, Export.

STATE OF THE COMPANY

The Cross Company is a medium-sized firm that manufactures specialized machine tools and transfer machinery primarily for the automobile industry for sale both domestically and abroad. Cross has three plants in the United States and facilities or subsidiaries in West Germany, Switzerland and the United Kingdom with total sales of $200 million. In the past two years, Cross has lost $75 million in business and has cut its work force from 2,000 to 900 employees.

THE INDUSTRY

Domestically, there are six to ten companies that produce specialized machine tools and transfer equipment with about $1 billion in total sales. Internationally, Cross must compete with firms in Japan, Germany, Italy, France, and Canada. Cross has lost access to the markets in Japan and the Far East due to the excess capacity and competition from Japanese firms. In France and Italy the major purchasers of the equipment produced by Cross (Renault and Fiat) are government-controlled and they tend to purchase from local companies. In addition, due to a U. S.foreign policy decision, all Eastern Bloc countries are now closed.

NEED TO FINANCE EXPORTS

For the first time in Cross' history, its major customers, automobile manufacturers, are asking that financing terms be included in the bids. As an example, one of Cross' major customers, the Ford Motor Company, used to pay net 30 days, but as of two years ago, Ford has had to have financing in order to buy the equipment it needs.

In 1981, Ford Mexico requested Cross to bid on a $20 million contract. Eximbank quoted Cross a rate of 12 percent. Because of the high rate, Cross routed the contract bid through its UK subsidiary where Export Credits Guarantee Department (ECGD) offered to finance 85 percent of the loan for seven years at 7 3/4 percent in dollars. There was no question of price and/or quality being the deciding factor—just financing.

In another $20 million contract bid with Ford Tractor, the Eximbank offered to finance 75 percent of the loan at 12 percent for 14 years with a two year grace period. Again the contract was routed through the UK subsidiary because it had obtained 85 percent financing at 7 3/4 percent for seven years with a two year grace period.

While all of Cross' foreign competitors, as well as its own foreign subsidiaries, are receiving subsidized financing from their local governments, Cross believes that most of its bids are being lost to companies, including its own subsidiary, in the UK. The ECGD from what is known in the past has stated that it will match any other subsidized loan to insure that UK companies can compete effectively for contracts. Recently it has been learned that ECGD has raised its lending rate to the 10-11 percent level.

IMPACT ON THE FIRM

As stated, Cross has lost $75 million in contracts in one year alone. This is partially due to the world recession, but is also due to competition from foreign firms. In a study prepared by Cross, it computed that the loss of a $20 million contract would result in a reduction of 800 jobs—both for the company and for its subcontractors. The impact on the state and U.S. treasuries that results from the loss of this $20 million contract is shown by the Cross Company in Table 1.

The Cross Company Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $20 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 18 percent to the U.S. treasury. If the financing was undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 21 percent.

The analysis in Table 2 assumes a loan of $15,000,000 paid by the federal or state treasury. This amount is dispensed in year zero - in other words the beginning of year one - and is a cash outflow as a result of the loan by the agency involved. (See Column 2.) Column 3 shows the loan repayment schedule used which is five equal annual payments of $3 million commencing at the end of year 3. Column 4 calculates the interest payments received at 8 percent on the outstanding loan amount by the borrower. Column 5 is the summation of columns 3 and 4 and represents repayment of principal and interest. The first line of columns 6, 7, and 8 show the revenue received by the federal, state, and combined treasuries in year one as a result of the reversal on tax outflows. This data is calculated in Table 1 The Cross Company and represents the cumulative impact of the cost of taxes and unemployment costs. In this case the gain to the federal treasury is $3,723,000 and the gain to the state is $644,000. The combined gain therefore totals $4,367,000. These figures are multiplied by the multiplier figure of 2.5 and the additionality of 50 percent assumed in this specific case giving positive cash flows to the federal treasury, state treasury, and both combined of $4,654,000, $805,000, and $5,459,000 respectively in year one. The remaining lines on columns 6, 7, and 8 represent principal and interest payments on the loan. The net outlay (loan amount) and revenue to the federal, state and combined treasuries are shown in columns

Table 1

THE CROSS COMPANY

TAX REVENUES LOST DUE TO LOSS OF $20 MILLION IN EXPORT SALES

	Federal	State	Total
Federal income taxes lost	$1,632,837[1]		$1,632,837
State income taxes lost		$439,954[2]	439,954
FICA lost	1,339,866[3]		1,339,866
Unemployment compensation Paid	750,000[4]		750,000
Sales tax lost		86,991[5]	86,991
Corporate income taxes lost	0[6]	117,500[7]	117,500
TOTAL	$3,722,703	$644,445	$4,367,148

Notes:

1) According to Cross, approximately 50 percent of its sales price is allocatable to labor costs an the average annual wages received by its employees, including fringe benefits, is $30,000. Usin this as an average, federal income taxes were based on the 1981 Tax Tables for married person filing jointly claiming two dependents and not itemizing deductions. Federal income ta computed in this manner was $4,899 per man year X 333.3 man years on a $20 million contract.
2) The state of Michigan has a flat individual tax rate of 4.6 percent.
3) FICA (social security taxes) was computed at 13.4 percent of gross wages; 6.7 percen contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,40 of income. The compensation is 50 percent $20 million 13.4 percent or $1,339,866.
4) Maximum unemployment benefits were computed as being 30 percent of wages for a period o six months or a total of $2,250 per laid off employee per year. (333.3 X $2,250 = 750,000). It i assumed that the direct impact of unemployment compensation paid is on the federa treasury. Unemployment payments are made by the firm and subtracted from the compar revenue, thus reducing federal taxes. These payments go to the federal and state unemploye benefit accounts and are disbursed by the state. However, the impact of such payments is a increase in employment payments by the firm, 50 percent of which comes from the federa treasury.
5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables compiled by the Internal Revenue Service and were based on total income of $30,000 with 3- family members or $261 per worker ($261 X 333.3 = $86,991).
6) Corporate income tax was based on 8 percent profit on sales and taxed at 46 percent by the federal government and was computed to be, in this example, $736,000. However, a subsidiar or another U.S. firm won this contract, which implies that the federal treasury did collec corporate taxes on the profit, this $736,000 will not be included here.
7) The state of Michigan has a single business tax which is a value added tax. It is computed b adding cash compensation, accrued benefits, depreciation and interest expenses to federa taxable income, subtracting royalties and interest income and a statutory exclusion of $40,00 and multiplying the result by .0235 percent. For purposes of this study, this figure is compute as $117,500.

Table 2

THE CROSS COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS
RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(1,000's)

Column(1) Year	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings and Revenues to Federal Treasury	(7) Savings and Revenues to State Treasury	(8) Savings and Revenues to Federal and State Combined	(9) Federal		(10) State		(11) Both	
								Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
0	$15,000				$4,654[a]	$805[c]	$5,459[e]	$10,346		$14,195		$9,541	
1		$1,200		$1,200	1,200	1,200	1,200		$1,200		$1,200		$1,200
2		1,200		1,200	1,200	1,200	1,200		1,200		1,200		1,200
3		3,000	$1,200	4,200	4,200[b]	4,200[d]	4,200		4,200		4,200		4,200
4		3,000	960	3,960	3,960	3,960	3,960		3,960		3,960		3,960
5		3,000	720	3,720	3,720	3,720	3,720		3,720		3,720		3,720
6		3,000	480	3,480	3,480	3,480	3,480		3,480		3,480		3,480
7		3,000	240	3,240	3,240	3,240	3,240		3,240		3,240		3,240
							Internal Rate of Return %		15		9		18

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $1,722,620, a multiplier of 2.5, and an additionality ratio of [illegible] obtaining a figure of $4,654,000.

[b] This represents an annual repayment of the loan with $3,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan [illegible] made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $644,443, a multiplier of 2.5, and an additionality ratio of [illegible]

[d] This was obtained from the data in Table 1 and is considered to be revenue to the state.

[e] The case (Scheme 2) represents the case where a state chartered "[illegible]" makes the loan.

[f] This figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a [illegible] to flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy [illegible] the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

Table [illegible]

THE CROSS COMPANY

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS AND [illegible] PERCENT EXPORT FINANCING.

Federal Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
M \ A*	40	50	60	40	50	60	40	50	60
2	12	14	17	14	16	17	[illegible]	8	[illegible]
2.5	14	16	18	14	18	21	[illegible]	[illegible]	[illegible]
3	15	18	22	17	21	25	[illegible]	[illegible]	[illegible]

State Treasury

	40	50	60	40	50	60	40	50	60
2	7	7	7	8	8	10	[illegible]	[illegible]	[illegible]
2.5	7	7	8	8	8	10	[illegible]	[illegible]	[illegible]
3	7	8	8	10	10	11	[illegible]	[illegible]	[illegible]

Federal and State Treasuries Combined

	40	50	60	40	50	60	40	50	[illegible]
2	15	17	18	17	18	20	[illegible]	[illegible]	[illegible]
2.5	17	19	22	18	21	24	[illegible]	[illegible]	[illegible]
3	18	22	26	20	24	29	[illegible]	[illegible]	[illegible]

* A denotes additionality in percent, M denotes multiplier effects.

9, 10, and 11.

Columns 9, 10, and 11 — the net outlay of funds and the repayment of the loan with interest — are presented for federal and state treasuries and both combined. To measure the attractiveness of each scheme it was necessary to calculate the rate of return that would be earned on the amount invested in the loan to the company by either the federal or state treasuries. The calculation used to measure the return on an uneven flow of revenue is the internal rate of return (IRR). When the discounted cash flow rate is found that makes the stream of earnings equal to that of the stream of expenses (in this case the loan) the IRR is established. This return is a measure of what is earned annually on the investment the loan made by the appropriate agency.

The internal rate of return (IRR) of the revenue stream of columns 9, 10, and 11 are shown on the bottom line of the table and are 18, 9, and 21 percent for the federal treasury, state treasury, and both combined respectively. This figure implies that, for example, in column 9 if the federal treasury had actually loaned $15 million for financing $20 million of exports, assuming a 50 percent additionality and a 2.5 multiplier, with a loan at 8 percent it would in effect have received an annual return on its loan of 18 percent. This is a rather favorable return to the federal treasury.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in The Cross Company Table 3. As can be seen, the IRR to the federal treasury ranges from 15 to 32 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent funds export by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 3 percentage points higher than the interest rate at which it offers funds.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. Given the fact that a loan of $15 million would generate (in our sample of Table 2)

$4,654,000 on about 30 percent of the loan value in tax revenues in year one, assuming these funds were placed in an account earning 10 percent annually, then during the loan period the federal treasury would be able to offer an average interest rate equalization subsidy of 7 to 8 percent annually on the value of the loan. In the case of The Cross Company, within all the multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. In fact, annual interest equalization subsidies justified by the federal treasury (depending on our assumptions) ranged from 5 to 11 percent of the loan value. The state treasury however was justified in an interest equalization subsidies of 1.5 to 3.5 percent of the loan value.

In the Case of Cross Company the alternatives are summarized as follows:

- Scheme 1	Direct export loan by the federal government would yield an annual return to the treasury of 14 to 25 percent.
- Scheme 2	Direct interest rate equalization payments by a federal organization was justified by an annual amount of 5 to 11 percent of loan value.
- Scheme 3	Direct export loan by state government would yield an annual return only 1 to 3 percent higher than the rate charged on the loan.
- Scheme 4	State buy-down and interest rate equalizations were only justifiable by an annual amount of 1.5 to 3.5 percent of the loan value.
- Scheme 5	Federal tax breaks on interest equalization schemes were justified by an annual amount of 5 to 11 percent of loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 20 to 40 percent of loan value.

- Export loan guarantees by state government were justifiable if defaults did not exceed 1.5 to 3 percent of loans.

FRENCH OIL MILL MACHINERY CO.

INTRODUCTION

Dr. Frederick Amling and Dr. Fariborz Ghadar visited Piqua, Ohio, where they spoke to Daniel P. French, President, and Evan A. Werling, Vice President and Treasurer of the French Oil Mill Machinery Co. The company officers were delighted and felt privileged to participate in this study.

STATE OF THE COMPANY

French Oil Mill Machinery (FOMM) is an 82-year old privately owned company, currently employing 315 people, that manufactures screw presses and processing equipment for use in all segments of the oil seed industry, the natural rubber industry, the natural palm oil industry, and the solvent extraction industry. FOMM is recognized worldwide as a manufacturer of top quality machinery of both standard and custom design. In addition to new equipment, it deals in repair and replacement parts. Approximately 50 percent of its total sales, $22 million last year, were derived from exports. While FOMM has been considered the 'Cadillac' of the industry, its prices have always been competitive. In fact, it can sell its best quality product at the same price as its competitors' lower quality products.

THE INDUSTRY

Domestically, FOMM has one competitor, namely Anderson International in Cleveland. Currently it is believed that Anderson is facing severe financial difficulties and has been acquired by another company to manufacture only replacement parts. Internationally, however, FOMM faces competition from Belgian, French, German, and Dutch companies.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates and the buying decision is based on product quality and price.

However, if the U.S. firm exports its product and is faced with foreign competition, the financial package offered must also compete with those of rival foreign producers.

If the foreign producer is able to offer better terms to the buyer due to government-sponsored supports and subsidies, it is often able to undercut the U.S. firm's financing packages and win the sale. This means of course that the U.S. firm loses the sale of the equipment because the buying decision was based on the financial package rather than on the quality of the product.

The world economic recession has created an environment where more and more foreign governments offer their firms subsidies in the form of low interest rate loans, at rates below those available in the U.S. This attractive financing to buyers is a major determinant as an incentive to tilt the competitive battle against the U.S. producer in favor of the foreign producer.

IMPACT ON THE FIRM

FOMM had an order backlog of between eight and fourteen months, and until two years ago, that was sufficient to maintain an annual sales level of $25 million. Currently FOMM faces grave problems as it is no longer able to compete with non-U.S. competitors in the export market because it is unable to obtain medium-term financing packages for its customers competitive with those offered by its foreign rivals.

FOMM is unable to get competitive financing for its buyers through the Eximbank or Insurance from other governmental organizations such as the FCIA. In addition, it is unable to get financing from international banks because its requirements are too small for the international banks to consider it seriously. Regional and local banks do not have the international expertise or the capital necessary to support the export financing needs of small firms such as FOMM, nor can they meet the financial terms provided by foreign governments. Its competitors in France, Belgium and the U.K., however, are able to offer better financing packages to customers because their governments are willing to offer below market financing for their nations' export sales.

Unlike many larger U.S. companies, FOMM is not big enough to establish subsidiaries in such countries to take advantage of the subsidies offered by those governments. In a sense FOMM has been forced to compete against foreign governments not just foreign firms.

In studying the contract bids lost by FOMM to foreign competitors, we see that the interest rates offered by these companies were four and five percentage points below the rates quoted to FOMM by U.S. commercial banks. It has been shown that FOMM has lost export sales because of its inability to offer financing packages that were competitive with foreign rivals. In fact, to date, FOMM has lost $15 million in bookings this year alone due solely to its inability to offer financing.

This year, with its expected sales level of $12 million, about half of last year's sales, it is likely that the company will have to reduce its work force significantly. Conservative estimates are that such a sales reduction will result in a work force reduction of 30 percent (± 5) and a loss of almost $2 million in salaries. The immediate impact of the outcome on the federal and states treasuries is calculated in Table 1.

French Oil Mill Machinery Co. Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $15 million sales contract. The analysis is done for an 8 percent loan and assumes an

Table 1

FRENCH OIL MILL MACHINERY CO.

TAX REVENUE LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF EXPOR

	Federal	State	Total
Federal income taxes lost	$708,571[1]		$708,571
State income taxes lost		$94,286[2]	94,286
FICA lost	804,000[3]		804,000
Unemployment compensation paid	450,450[4]		450,450
Sales tax lost		55,484[5]	55,484
Corporate income taxes lost	828,000[6]	155,575[7]	983,575
TOTAL	$2,791,021	$305,345	$3,096,366

Notes:

1) According to FOMM, approximately 40 percent of its sales price is allocable to labor costs the average annual wages received by employees, including fringe benefits, is $21,000. U this as an average, federal income taxes were based on the 1931 Tax Tables for married pers filing jointly claiming two dependents and not itemizing deductions. Federal income computed in this manner was $2,480 X 286 workers laid off.

2) The state of Ohio individual tax rate for incomes beween $20,000 and $40,000 was $300 pl percent of excess over $20,000. In this case, it was computed at $330 per worker.

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 perc contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32 of income. The computation is 40 percent times $15 million times 13.4 percent or $804,000.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a perio six months or a total of $1,575 per laid off employee per year. (286 X $1,575 = $450,450). assumed that the indirect impact of unemployment compensation paid is on the fed treasury. Unemployment payments are made by the firm and subtracted from the compa revenue, thus reducing federal taxes. These payments go to the federal and state unemplo benefit accounts and are disbursed by the state. However, the impact of such payments is increase in employment payments by the firm, 50 percent of which comes from the fe treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Tables compiled by the Internal Revenue Service and were based on total income of $21,000 with family members or $194 per worker. ($194 X 286 = $55,484)

6) Corporate income tax was based on 12 percent profit on sales and taxed at 46 percent by federal government ($15 million X 12 percent X 46 percent or $828,000).

7) The state of Ohio has a corporate income tax of 4.6 percent on the first $25,000 and 8.7 per on anything in excess of $25,000. The state corporation income tax so computed eq $155,575.

Table 2

FRENCH OIL MILL COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS

RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(1,000's)

Columns (1) Year	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings and Revenues to Federal Treasury*	(7) Savings and Revenues to State Treasury*	(8) Savings and Revenues to Federal and State Combined*	(9) Federal Net Outlay	Principal + Interest	(10) State Net Outlay	Principal + Interest	(11) Both Net Outlay	
0	$11,250				$3,489[a]	$381[c]	$3,780[e]	$7,761		$10,869		$7,380	
1			$900	$900	900	900	900		$900		$900		$900
2		$1,875	900	2,775	2,775[b]	2,775	2,775		2,775		2,775		2,775
3		1,875	750	2,625	2,625	2,625	2,625		2,625		2,625		2,625
4		1,875	600	2,475	2,475	2,475	2,475		2,475		2,475		2,475
5		1,875	450	2,325	2,325	2,325	2,325		2,325		2,325		2,325
6		1,875	300	2,175	2,175	2,175	2,175		2,175		2,175		2,175
7		1,875	150	2,025	2,025	2,025	2,025		2,025		2,025		2,025
								Internal Rate of Return %	19		9		21

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $2,791,000, a multiplier of 2.5, and an additionality ratio of .5 obtaining a figure of $3,489,000.

[b] This represents an annual repayment of the loan with $1,875,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $381,000, a multiplier of 2.5, and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] This case represents the case where a state chartered Eximbank makes the loan (Scheme 3).

[e] The figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal governments. This is a proxy on the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

Calculated at 2.5 multiplier and 50 percent additionality in exports of $15 million with a 75 percent loan.

additionality of 50 percent due to the export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 19 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 25 percent.

For an explanation of the methodology used to derive these figures, see pages 11-14 in the Columbia Machinery case.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in French Oil Mill Table 3. As can be seen, the IRR to the federal treasury ranges from 12 to 29 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 3 percentage points higher than the internal rate at which it offers the funds.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of French Oil Mill Company, within all the multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. The annual interest equalization subsidies justified by the federal treasury (depending on our assumptions) ranged from 6 to 14 percent. The state treasury, however, was justified in interest equalization subsidies of 1.5 to 3.5 percent.

In the case of the French Oil Mill Company, the alternatives are summarized as follows.

- Scheme 1	Direct export loans by the federal government would yield an annual return to the treasury of 12 to 29 percent.
- Scheme 2	Direct interest rate equalization payments by a federal organization

Table 3

THE FRENCH OIL MILL COMPANY

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8 AND 10 PERCENT INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS

Federal Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
M \ A*	40	50	60	40	50	60	40	50	60
2	12	14	16	14	16	18	16	18	20
2.5	14	16	20	16	19	22	18	21	24
3	16	20	25	18	22	27	20	24	29

State Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
	40	50	60	40	50	60	40	50	60
2	6	6	7	8	8	9	10	10	11
2.5	6	7	8	8	9	10	10	11	12
3	7	8	8	9	10	10	11	12	13

Federal and State Treasuries Combined

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
	40	50	60	40	50	60	40	50	60
2	13	15	18	15	17	20	17	19	27
2.5	15	19	22	17	21	24	19	23	26
3	18	22	29	20	24	31	22	26	33

*'A' denotes additionality in percent; 'M' denotes multiplier effect.

was justified by an annual amount of 6 to 14 percent of the loan value.

- Scheme 3 Direct export loan by state agencies would yield an annual return of less than 3 percent above the loan interest rate.

- Scheme 4 State buy down and interest rate equalizations were only justifiable by an annual amount of 1.5 to 3.5 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 6 to 14 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 20 to 45 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed 3 to 5 percent of the loan value.

JOSEPH F. LAMB CO.

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited Carlton R. Lindell, President, Lamb Technicon; Paul Stoffa, Group, Vice President, Planning and International Marketing; John D. Borseth, Vice President Sales and Marketing; and Robert C. Dennis, Treasurer.

STATE OF THE COMPANY

The Lamb Technicon Corporation is a medium-sized firm that manufactures specialized machine tool and transfer equipment for sales both domestically and abroad. Lamb has one facility in the outskirts of Detroit, two in Windsor, Ontario and a sales office in the United Kingdom. Lamb has just closed a small plant and consolidated it with another due to a reduction in work orders. Total annual sales run about $300 million.

THE INDUSTRY

Domestically, there are six to ten companies that produce specialized machine tools and transfer equipment, with about $1 billion in total sales. Lamb is considered to be one of the major U.S. manfacturers. Internationally, Lamb competes with other U.S. firms' subsidiaries, and firms in Germany, Japan, France, and Italy. Lamb holds approximately 10 percent of the worldwide market for the specialized machine tools and transfer equipment.

NEED TO FINANCE EXPORTS

Providing competitive financing of projects for export for the past two years has become an integral part of contract bids. Unfortunately, Lamb has been unable to obtain competitive rates from its local banks that offer 18 percent loans (in 1981) or from the Eximbank. Instead, it is routing many of its projects through its Canadian operations to obtain financing that its customers can accept. For example, last year it was quoted the following terms:

Canada	85 percent of contract financed at 11 1/2 percent, fixed, US dollars, if manufactured in Canada
U.S. Commercial Banks	interest rates of between 18 and 20 percent
United Kingdom	85 percent of contract financed at 7 1/2 to 8 percent with an up-front fee of 4 percent, if manufactured in the U.K.

In other words, to secure the contract, the firm must be able to offer competitive financing or be prepared to build the equipment outside of the United States in a country where it can obtain competitive financing. Lamb has found that even in cases of domestic contracts, it has been unable to obtain competitive local (U.S.) financing for its U.S. customers and has shifted the production of the equipment to its Canadian facilities thus being able to use Canada's export credit. The drawback of this is that Canada requires that 75 percent of the total content be produced in Canada.

IMPACT ON THE FIRM

Lamb, like many other U.S. firms, is finding that to remain a viable business entity, it must manufacture its products outside of the United States where it is able to receive subsidized loans for financing. Whereas in the past it used its Canadian facilities for excess work orders from the United States, it now finds it necessary, due to the competitive rates, to shift more and more of its orders to its Canadian factories. There is a limit to Canadian capacity, however, and the firm is reluctant to expand in Canada. Meanwhile, the U.S. plant languishes in a reduction in plant use and a sharp increase in unemployment.

As more of its business is conducted outside of the United States, the impact on the U.S. economy increases. For example, last year Lamb lost a $20 million contract to another U.S. firm's subsidiary in the U.K. Lamb had offered 11 to 12 percent financing in dollars out of Canada, and its competitor offered 7 1/2 percent in dollars out of the UK where it had a factory. No U.S. bank or governmental agency played a role in this contract bid. The impact to the U.S. treasury, the state of Michigan and the U.S. economy due to the reduction in taxes and increased unemployment compensation is computed in Table 1.

Lamb Company Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of a $20 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 16 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 9 percent. The combined IRR to the federal and state treasuries would have been 18 percent. For an explanation of the methodology used to derive these figures, see pages 11-14 in the Columbia Machinery case.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in Lamb Table 3. As can be seen, the IRR to the federal treasury ranges from 11 to 24 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 2 percent higher than the interest rate at which it offers the funds.

Table I

JOSEPH F. LAMB COMPANY

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF $20 MILLION IN EXPORT SALES

	Federal	State	Total
Federal income taxes lost	$1,306,073[1]		$1,306,073
State income taxes lost		$367,908[2]	367,908
FICA lost	1,071,732[3]		1,071,732
Unemployment compensation paid	599,350[4]		599,850
Sales tax lost		69,583[5]	69,583
Corporate income taxes lost	0[6]	117,500[7]	117,500
TOTAL	$2,977,655	$554,991	$3,532,646

Notes:

1) According to Lamb, approximately 40 percent of its sales price is allocable to labor costs. average annual wages received by employees, including fringe benefits, is $30,000. Using thi an average, federal income taxes were based on the 1981 Tax Tables for married persons fi jointly claiming two dependents and not itemizing deductions. Federal income tax compute this manner was $4,399 per man year X 266.6 man years on a $20 million contract.

2) The state of Michigan has a flat individual tax rate of 4.6 percent ($30,000 X 266.6 X percent = $367,908).

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 perc contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32, of income. The computation is 40 percent times $20 million times 13.4 percent or $1,071,73

4) Maximum unemployment benefits were computed as being 30 percent of wages for a peric six months or a total of $2,250 per laid off employee per year. (266.6 X $2,250 = $599,350). I assumed that the indirect impact of unemployment compensation paid is on the fede treasury. Unemployment payments are made by the firm and subtracted from the compar revenue, thus reducing federal taxes. These payments go to the federal and state unempl benefit accounts and are disbursed by the state. However, the impact of such payments is increase in unemployment payments by the firm, 50 percent of which comes from the fed treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Ta compiled by the Internal Revenue Service and were based on total income of $30,000 with family members or $261 per worker ($261 X 266.6 = $69,598).

6) Corporate income tax was based on 8 1/2 percent profit on sales and taxed at 46 percent by federal government and was computed to be, in this example, $506,000. However sinc subsidiary or another U.S. firm won this contract, which implies that the federal treasury collect corporate taxes on this profit, this $506,000 will not be included here.

7) The state of Michigan has a single business tax which is a value added tax. It is computed adding cash compensation, accrued benefits, depreciation and interest expenses to fede taxable income, subtracting royalties and interest income and a statutory exclusion of $40,0 and multiplying the result by .0235 percent. For purposes of this study, this figure computed as $117,500.

Table 2

JOSEPH F. LAMB COMPANY

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS

RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(1,000's)

Column (1) Yr	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings & Revenues to Federal Treasury	(7) Savings & Revenues to State Treasury	(8) Savings & Revenues to Federal and State Combined	(9) Federal Net Outlay	Principal + Interest	(10) State Net Outlay	Principal + Interest	(11) Both Net Outlay	Principal +Interest
								$11,278		$14,306		$10,585	
0	$15,000				$3,721[a]	$ 692[c]	$4,415[e]						
1			$1,200	$1,200	1,200	1,200	1,200		$1,200		$1,200		$1,200
2			1,200	1,200	1,200	1,200	1,200		1,200		1,200		1,200
3		$3,000	1,200	4,200	4,200[b]	4,200[d]	4,200		4,200		4,200		4,200
4		3,000	960	3,960	3,960	3,960	3,960		3,960		3,960		3,960
5		3,000	720	3,720	3,720	3,720	3,720		3,720		3,720		3,720
6		3,000	480	3,480	3,480	3,480	3,480		3,480		3,480		3,480
7		3,000	240	3,240	3,240	3,240	3,240		3,240		3,240		3,240
								Internal Rate of Return %	16		9		18

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $2,977,655, a multiplier of 2.5, and an additionality ratio of .5 obtaining a figure of $3,721,000.

[b] This represents an annual repayment of the loan with $3,000,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $692,000, a multiplier of 2.5, and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] This case represents the case where a state chartered "Eximbank" makes the loan (Scheme 3).

[e] This figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

Table 3

JOSEPH F. LAMB COMPANY

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8 AND 10 PERCENT INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS.

	6 Percent Lending rate			8 Percent Lending Rate			10 Percent Lending Rate	
				Federal Treasury				
M \ A*	40	50	60	40	50	60	40	50
2	11	12	13	13	14	15	15	16
2.5	12	14	16	14	16	18	16	19
3	13	16	18	15	18	21	18	21
				State Treasury				
	40	50	60	40	50	60	40	50
2	6	6	7	9	9	10	10	10
2.5	6	6	7	9	9	10	10	10
3	7	7	8	10	10	11	11	11
				Federal and State Treasuries Combined				
	40	50	60	40	50	60	40	50
2	11	14	16	13	16	18	15	17
2.5	14	16	18	16	18	21	18	21
3	16	18	21	18	21	24	20	23

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* 'A' de[illegible]ditionality in percent; 'M' denotes multiplier effect.

The revenue streams were then analyzed with a view to calculating the extent of interest rat equalization by the federal and state treasuries that the revenue streams justified. In the case o Lamb Company, within all four of our multiplier and additionality assumptions, interest equalizatio subsidies would be economically justifiable. The annual interest equalization subsidies based on ou assumptions and justified by the federal treasury ranged from 4 to 10 percentage points. The stat reasury however was justified in interest equalization subsidies of only 1 to 3 percentage points.

In the case of the Lamb Company the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual return to the treasury of 11 to 24 percent.

- Scheme 2 Direct interest rate equalization payment by a federal organization was justified by an annual amount of 4 to 10 percent of the loan value.

- Scheme 3 Direct Export loans by the state government would yield an annual return only up to 2 percent above the interest rate charged on the loan.

- Scheme 4 State buy down and interest rate equalizations were only justifiable by an annual amount of 1 to 3 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 4 to 10 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 20 to 40 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed [illegible] to 6 percent of the loan value.

PETROTECH

INTRODUCTION

Drs. Frederick Amling and Fariborz Ghadar visited the Petrotech company in Belle Chasse, La. in early November 1982 where they interviewed Doug Moore P.E., President of Petrotech.

STATE OF THE COMPANY

Petrotech, international in scope, is a small firm that designs, engineers and manufactures specialized compressor stations as well as pneumatic and electronic control systems to measure, filter, and control the flow and storage of natural gas, manufactured, gas, and oil in pipelines. These products are designed for use in the United States and abroad. The sophisticated and quality products developed and produced by this company represent the state of the art in the industry with Petrotech being the low-cost producer in international competition at least for the pipeline job in Eygpt which represents approximately $15 million of sales and 300 man years of work. The simplicity, durability and economy of the systems designed by Petrotech with its unique combination of management and skilled artisans is impressive. Presently Petrotech has a work force of 100 people.

THE PROJECT AND THE COMPETITOR

Petrotech is in the process of bidding for a pipeline job in Eygpt. Its partners are Motorola and Systronics. The value of the $15 million to Petrotech is $12 million with $2 million going to Motorola and the remaining $1 million going to Systronics. The competing firms are British, French, and Italian. The next closest bid is Snam Prognetta of Italy.

THE COMPETITIVE PROBLEM

From an engineering and technical standpoint Petrotech is the winning company. The systems design is superior and commercially the company was and is the low bidder. Though this is true, it appears that Petrotech will not be awarded the project because it cannot obtain competitive financing. At this point an Italian firm, Nuovo Pignone (a subsidiary of the state-controlled ENI group), appears to be the front runner in the competition because the Italian government will provide 6 1/2 percent loan financing for the project. The Italian firm did not have the lowest bid—in fact it was $2 million higher than the Petrotech bid. While it is rumored that the Italian company will get the bid it is also believed that it will be required to reduce the price of this project and increase another project's price by $2 million that was previously awarded to make up the difference.

Petrotech spent over $100,000 to enter the competitive arena. If it had competitive financing it would have earned a 2 percent profit on the contract—which is very low—but it would have provided 300 man years of employment for Americans.

THE PROBLEM

The president of the company believes he has not had the cooperation of the U.S. Embassy in Cairo and has only recently obtained the attention of the staff of the Eximbank, AID and the Department of Commerce. The president of the company thinks the U.S. government should back him in his export efforts and his company cannot fight the international competitive battle against 6 1/2 percent Italian financing without U.S. support.

IMPACT OF THE FIRM

The loss of this $15 million contract on the U.S. treasury, and the state of Louisiana is computed in Table 1. Petrotech Table 2 identifies the stream of earnings generated for the federal and state treasuries from export credit financing on 75 percent of the value of the $15 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 20 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate charge of 9 percent. This is due to the fact that a significant portion of the project is procured outside of Louisiana, in states such as Texas and Oklahoma, therefore the state treasury would not benefit from such employment and production. The combined IRR to the federal and Louisiana state treasury would have been 22 percent.

For an explanation of the methodology used to derive these figures, see pages 11-14 in the Columbia Machine case.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60) percent assumptions. The results are summarized in Petrotech Table 3. The IRR to the federal treasury ranges from 13 to 29 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury is 1 to 2 percentage points higher than the interest rate at which it offers the funds.

The revenue streams were then analyzed with a view to calculating the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of Petrotech, within all of our multiplier and additionality assumptions, interest equalization subsidies would be economically justifiable. The annual interest equalization subsidies (based on our assumptions) justified by the federal treasury ranged from 7 to 15 percent. The state treasury, however, was justified in interest rate equalization of 1 to 2 percent.

Table 1

PETROTECH

TAX REVENUE LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF $15 MILLION IN EXPORT SALES

	Federal	State	Total
deral income taxes lost	$1,469,700[1]		$1,469,700
te income taxes lost		$252,000[2]	252,000
A lost	1,206,000[3]		1,206,000
employment compensation paid	675,000[4]		675,000
es tax lost		29,600[5]	29,600
porate income taxes lost	450,000[6]	32,500[7]	42,500
TOTAL	$3,800,700	$314,100	$4,114,800

es:

According to Petrotech, approximately 60 percent of the sales price is allocable to labor costs. The average annual wages received by employees, including fringe benefits, is $30,000. Using this as an average, federal income taxes were based on the 1981 Tax Tables for married persons filing jointly claiming two dependents and not itemizing deductions. Federal income tax computed in this manner was $4,899 X 300 man years on a $15,000,000 contract.

The state of Louisiana has a state tax rate of 2 percent on the first $10,000 and up to 4 percent up to $40,000. Thereafter the state tax was computed to be $840 per family times 300 man years, or $252,000.

FICA (social security taxes) was computed at 13.4 percent of gross wages; 6.7 percent contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,400 of income. The computation is 300 X $30,000 X 13.4 percent or $1,206,000.

Maximum unemployment benefits were computed as being 30 percent of wages for a period of six months or a total of $2,250 per laid off employee per year ($2,250 X 300 or $675,000). It is assumed that the indirect impact of unemployment compensation paid is on the federal treasury. Unemployment payments are made by the firm and subtracted from the company revenue, thus reducing federal taxes. These payments go to the federal and state unemployee benefit accounts and disbursed by the state. However, the impact of such payments is an increase in unemployment in payments by the firm, 50 percent of which comes from the federal treasury.

The sales tax figures were computed according to the 1981 Optional Sales Tax Tables as compiled by the Internal Revenue Service and were based on total income of $30,000 with 3-4 family members or $197 per worker (300 X $197 or $29,600).

Corporate income tax was based on 3 percent profit on sales and taxed at 46 percent by the federal government and was computed to be, in this example, $450,000.

The state of Louisiana has a corporate tax rate of 4 percent on the first $25,000 of profits, 5 percent on the next $25,000 of profits, 6 percent on the next $50,000 of profits, 7 percent on the next $100,000 of profits and 8 percent on any profit in excess of $200,000. Therefore the state corporate tax was computed on $450,000 and amounted to $32,500.

Table 2

PETROTECH

THE INTERNAL RATE OF STREAMS OF EARNINGS AND OUTLAYS RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES

(1,000's)

Column (1) Yr	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings & Revenues to Federal Treasury	(7) Savings & Revenues to State Treasury	(8) Savings & Revenues to Federal & State Combined	(9) Federal Net Outlay	Principal + Interest	(10) State Net Outlay	Principal + Interest	(11) Both Net Outlay	Principal + Interest
0	$11,250				$4,750^a	$ 392^c	$5,142^e	$7,761		$10,869		$7,380	
1			$900	$900	900	900	900		$900		$900		$900
2		$1,875	900	2,775	2,725^b	2,725^d	2,725		2,775		2,775		2,775
3		1,875	750	2,625	2,625	2,625	2,625		2,625		2,625		2,625
4		1,875	600	2,475	2,475	2,475	2,475		2,475		2,475		2,475
5		1,875	450	2,325	2,325	2,325	2,325		2,325		2,325		2,325
6		1,875	300	2,175	2,175	2,175	2,175		2,175		2,175		2,175
7		1,875	150	2,025	2,025	2,025	2,025		2,025		2,025		2,025
								Internal Rate of Return %	16		-9		21

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $3,800,700, a multiplier of 2.5, and an additionality ratio of .5 obtaining a figure of $4,750,000.

[b] This represents an annual repayment of the loan with $1,875,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $392,000, a multiplier of 2.5, and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] This case represents the case where a state chartered "Eximbank" makes the loan (Scheme 3).

[e] This figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

Table 3

PETROTECH

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES

Federal Treasury

	6 Percent Lending Rate				8 Percent Lending Rate				10 Percent Lending Rate		
M \ A*	40	50	60	M \ A*	40	50	60	M \ A*	40	50	60
2	13	15	17	2	15	17	19	2	17	19	21
2.5	15	17	21	2.5	17	20	23	2.5	19	22	25
3	17	21	26	3	19	23	28	3	21	25	29

State Treasury

	40	50	60		40	50	60		40	50	60
2	6	6	6	2	8	8	9	2	10	10	11
2.5	6	7	8	2.5	8	9	10	2.5	10	11	12
3	7	8	8	3	9	10	10	3	11	12	13

Federal and State Treasuries Combined

	40	50	60		40	50	60		40	50	60
2	14	16	19	2	16	18	21	2	18	20	23
2.5	16	20	23	2.5	18	22	25	2.5	20	24	27
3	19	23	30	3	21	25	32	3	23	27	34

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* 'A' denotes additionality in percent; 'M' denotes multiplier effect.

In the Case of Petrotech the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual return to the treasury of 13 to 29 percent.

- Scheme 2 Direct interest rate equalization payments by a federal organization was justified by an annual amount of 7 to 15 percent of the loan value.

- Scheme 3 Direct export loans by the state government would yield an annual return at best 3 percent above the interest rate charged on the loan.

- Scheme 4 State buy-down and interest rate equalizations were only justifiable by an annual amount of 1 to 2 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 7 to 15 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 25 to 15 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed 2.5 to 5.5 percent of the loan value.

SOFEC

INTRODUCTION

Dr. Frederick Amling and Dr. Fariborz Ghadar visited Houston, Texas where they spoke to William Kielly, President; Robert Gruy, Senior Vice President; and Sylvan Schwartz, Jr., Vice President—Finance, all of SOFEC, Inc.

STATE OF THE COMPANY

SOFEC, Inc. (Specialized Offshore Facilities and Engineered Components) is a private firm, wholly owned by Texas United Corporation, which began operations in 1972 and currently employs twenty-two people. The company designs, engineers, and constructs a full range of marine terminals on a turnkey basis. It is one of the primary suppliers of Single Point Mooring (SPM) terminals for liquid product import or export and for offshore floating crude oil production, storage, and processing. The SPM technology has been expanded to include specialty buoys for use in ship berthing and maneuvering in difficult or congested areas, offshore supply vessel mooring, and conventional multiple buoy terminals. SOFEC is a licensee of the Single Anchor Leg Mooring (SALM) system through Exxon Research and Engineering.

SOFEC is predominantly an international company with worldwide recognition for its high quality design and construction. Though it is located in the United States, only one U.S. port has purchased a SALM from SOFEC. All other systems have been produced for export.

THE INDUSTRY

SOFEC's main international competitors are from Monaco, Switzerland, the

Netherlands, France, and Canada. Currently, SOFEC has approximately ten percent of the $100 million worldwide industry sales.

NEED TO FINANCE EXPORTS

As with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates, and the buying decision is based on product quality and price. However, if the U.S. firm exports its product and is faced with foreign competition, the financial package offered must also compete with those of rival foreign producers.

If the foreign producer is able to offer better terms to the buyer due to government sponsored supports and subsidies, it is often able to undercut the U.S. firm's financing package. This means of course that the U.S. firm loses the sale of the equipment because the buying decision was based on the financial package rather than the price or quality of the product.

SPM's were used almost exclusively for the transportation of large quantities of oil—deepwater or port to port—from 1972 until about 1979. These facilities were owned and operated primarily by the major oil companies. As such, it was the oil companies that funded the projects and SOFEC did not have to offer a financial package to its customers.

In the last four years however, the technology has been enormously expanded and SPMs and SALMs are being used for other purposes than filling stations. They are being used to anchor vessels directly at oil fields, which alleviates the need for pipelines and permits offshore fields to go into production two to three years earlier. With this shift in function, the customer base has also shifted away from the major oil companies. Furthermore, with the rapidly increasing role of national oil entities and smaller companies, the multinational oil companies' role has eroded and SOFEC's clients now include national oil companies of smaller countries and independent oil companies and major oil companies. As few of these entities have the financial or capital backing that the major oil companies have, they require extensive financing.

In fact, as of July 1982, SOFEC had 19 bids outstanding. Of these, only five did not require financing as a major condition for winning the contract. The company considered six or seven as potentially obtainable; of these, four will require major financing.

IMPACT ON THE FIRM

The lack of export financing has had an impact on the firm. As an example, SOFEC was asked by the Government of Brazil to bid on a $2 million contract for Petrobras. It came in first out of five in three different technical evaluation rounds; first out of five in three commercial and price evaluation rounds; and last in the financing evaluation round. And even though SOFEC was first in quality and price, it lost the contract due to the noncompetitive financing package it put forth. At the time of the contract bid, the Eximbank had its lower lending limit at $5 million. This meant that SOFEC had to go through a commercial bank and it was able to offer funds at LIBOR + 2 3/4 percent as opposed to its French competitor, which, with government backing, offered 8 1/4 percent fixed for ten years with a two year grace period. On one contract, within the past month, the Eximbank provided a loan at 11 percent for one SOFEC project. This allowed the firm to be competitive for the contract.

If SOFEC had won the $2 million Petrobras contract, it would have increased demand in the United States for 60 full-time machinists and welders with an average annual salary estimated to be $22,500. The impact of this loss for the state and federal governments is seen in Table 1.

For an explanation of the methodology used to derive these figures, see pages 11-14 in the Columbia Machine case.

SOFEC Table 2 identifies the stream of earnings generated for the federal and state

Table 1

SOFEC

TAX REVENUES LOST AND UNEMPLOYMENT COMPENSATION PAID DUE TO LOSS OF $2 MILLION IN EXPORT SALES

	Federal	State	Total
Federal income taxes lost	$151,105[1]		$151,105
State income taxes lost		$0[2]	0
FICA lost	160,700[3]		160,700
Unemployment compensation paid	89,944[4]		89,944
Sales tax lost		9,647[5]	9,647
Corporate income taxes lost	165,600[6]	0[7]	165,600
TOTAL	$567,349	$9,647	$576,996

Notes:

1) According to SOFEC, approximately 60 percent of its sales price is allocable to labor cos The average annual wages received by employees, including fringe benefits, is $22,500. U this as an average, federal income taxes were based on the 1981 Tax Tables for married per filing jointly claiming two dependents and not itemizing deductions. Federal income computed in this manner was $2,835 per man year X 53.3 man years on a $2 million contract.

2) The state of Texas has no individual state income tax.

3) FICA (social security taxes) was computed at 13.4 percent of gross wages with 6.7 per contributed by the employer and 6.7 percent by the employee. The ceiling on this tax is $32,4 of income.

4) Maximum unemployment benefits were computed as being 30 percent of wages for a perio six months or a total of $1,688 per laid off employee per year. It is assumed that the inc impact of unemployment compensation paid is on the federal treasury. Unemploym payments are made by the firm and subtracted from the company's revenue, thus redu federal taxes. These payments go to the federal and state unemployed benefit accounts disbursed by the state. However, the impact of such payments is an increase in unemploy payments by the firm, 50 percent of which comes from the federal treasury.

5) The sales tax figures were computed according to the 1981 Optional Sales Tax Table compiled by the Internal Revenue Service and were based on total income of $22,500 with family members or $181 per worker.

6) Corporate income tax was based on 18 percent profit on sales and taxed at 46 percent by federal government.

7) The state of Texas has no state tax on corporations.

Table 2

SOFEC

THE INTERNAL RATE OF RETURN OF STREAMS OF EARNINGS AND OUTLAYS
RESULTING FROM DIRECT LOANS BY FEDERAL AND STATE TREASURIES
(1,000's)

Column (1) Year	(2) Loan	(3) Loan Repayment	(4) Interest at 8 Percent	(5) Total	(6) Savings and Revenues to Federal Treasury	(7) Savings and Revenues to State Treasury	(8) Savings and Revenues to Federal and State Combined	(9) Federal		(10) State		(11) Both	
								Net Outlay	Principal + Interest	Net Outlay	Principal + Interest	Net Outlay	Principal + Interest
0	$1,500				$709[a]	$ 12	$721	$791		$1,488		$779	
1			$120	$120	120	120	120		$120		$120		$120
2			120	120	120	120	120		120		120		120
3		$300	120	420	420[b]	420[c]	420		420		420		420
4		300	96	396	396	396	396		396		396		356
5		300	72	372	372	372	372		372		372		372
6		300	48	348	348	348	348		348		348		343
7		300	24	324	324	324	324		324		324		324
								Internal Rate of Return %	27		8		27

[a] The saving to the federal treasury was obtained from Table 1 and was calculated as $567,349, a multiplier of 2.5, and an additionality ratio of .5 obtaining a figure of $739,000.

[b] This represents an annual repayment of the loan with $300,000 to principal and the remainder for interest. This would apply to Scheme 1 where a loan would be made by an agency of the federal government for 75 percent of the contract. This is assumed to be a competitive rate.

[c] This assumes a gain of revenue to the state as a result of the loan and is calculated as $12,000, a multiplier of 2.5, and an additionality rate of .5. This was obtained from the data in Table 1 and is considered to be revenue to the state.

[d] This case represents the case where a state chartered "Eximbank" makes the loan (Scheme 3).

[e] This figure represents the combined effect on the federal and state treasuries as a result of the gain in sales resulting from the loan and a reversal of the flows back into the treasuries. It does not take into consideration whether it is a benefit to the state or federal government. This is a proxy on the total effect on the U.S. economy assuming there were no interstate purchases resulting from the contract.

treasuries from export credit financing on 75 percent of the value of a $2 million sales contract. The analysis is done for an 8 percent loan and assumes an additionality of 50 percent due to the export financing and a multiplier of 2.5. The internal rate of return (IRR) on such direct export credits by the federal government would be 27 percent to the U.S. treasury. If this financing were undertaken by the state treasury, the IRR would have been only marginally higher than the interest rate of 8 percent. The combined IRR to the federal and state treasuries would have been 27 percent. For an explanation of the methodology used to derive these figures, see pages 11-14 in the Columbia Machinery case.

This analysis was carried out for export credit financing interest rates of 6, 8 and 10 percent, for three multipliers (2, 2.5 and 3), and three additionality (40, 50 and 60 percent) assumptions. The results are summarized below in SOFEC Table 3. The IRR to the federal treasury ranges from 16 to 46 percent. Thus, given the federal borrowing rate, a direct export financing scheme offering 6 percent export funds by the federal government would still be justifiable to the U.S. treasury. The return to the state treasury however is only marginally higher than the interest rate at which the funds would be offered. This is primarily due to the fact that the state of Texas has no individual or corporate state taxes.

The revenue streams were then analyzed to calculate the extent of interest rate equalization by the federal and state treasuries that the revenue streams justified. In the case of SOFEC Company, the financing schemes where the federal government subsidized interest rates were economically justifiable within all the multiplier and additionality assumptions. In fact, annual interest equalization subsidies of 12 to 30 percentage points were justifiable to the federal treasury. The state treasury, however, did not generate enough additional revenues to justify even a 1 percent interest equalization subsidy.

The above figures indicate the initial revenue that was lost due to SOFEC's inability to offer a competitive financing package in Brazil. It should be noted that the same inability to offer financing that was competitive with foreign financing packages also led SOFEC to lose a $12 million contract in Panama in 1981.

Table 3

SOFEC

INTERNAL RATE OF RETURN TO THE FEDERAL AND STATE TREASURIES FOR A 75 PERCENT EXPORT FINANCING LOAN AT 6, 8, AND 10% INTEREST FOR VARIOUS MULTIPLIER AND ADDITIONALITY ASSUMPTIONS

Federal Treasury

	6 Percent Lending Rate			8 Percent Lending Rate			10 Percent Lending Rate		
M \ A*	40	50	60	40	50	60	40	50	60
2	16	19	23	19	22	26	21	24	23
2.5	19	24	31	22	27	34	24	29	36
3	23	31	40	26	34	44	28	36	46

State Treasury

	40	50	60	40	50	60	40	50	60
2	6	6	6	8	8	8	10	10	10
2.5	6	6	6	8	8	8	10	10	10
3	6	6	7	8	8	9	10	10	11

Federal and State Treasuries Combined

	40	50	60	40	50	60	40	50	60
2	16	19	23	19	22	26	21	24	28
2.5	19	24	31	22	27	34	24	29	36
3	23	31	40	26	34	44	28	36	46

* 'A' denotes additionality in percent; 'M' denotes multiplier effect.

The company is currently bidding on a contract with ONGC in India for the Bombay High Complex, valued at $3.683 million for the U.S. component with $4.30 million total. As the Eximbank has reduced its lower lending limit to $2.5 million, SOFEC has applied for Eximbank export financing.

However, it is feared that the Eximbank's financing package will not be effectively competitive. One problem is that the amount of the loan is for only 75 percent of the contract. SOFEC has seriously considered having its bid for the contract originate from its U.K. affiliate which would insure an ECDG rate of 10 percent*. In this case, however, Eximbank did offer 11 percent financing resulting in SOFEC's continuing as a contestant in the competition.

SOFEC recognizes that if it is to continue to be a commercially viable entity, it must win contracts, and to win contracts, it must be able to offer competitive financing. If, in order to continue its existence SOFEC must move its base of operations outside of the United States to another jurisdiction where there is active governmental support for export financing, it will do so. It would much prefer to remain in the United States.

In the case of SOFEC the alternatives are summarized as follows.

- Scheme 1 Direct export loans by the federal government would yield an annual rate of return to the treasury of 16 to 46 percent.

- Scheme 2 Direct interest rate equalization payments by a federal organization were justified by an annual amount of 12 to 30 percent of the loan value.

- Scheme 3 Direct export loans by the state government would yield an annual rate of return at best only 1 percent above the interest rate charged on the loan,

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* SOFEC subsequently rejected going with ECDG.

- Scheme 4 State buy down and interest rate equalizations were only justifable by an annual amount of less than 1 percent of the loan value.

- Scheme 5 Federal tax breaks on interest equalization schemes were justified by an annual amount of 12 to 30 percent of the loan value.

- Export loan guarantees by the federal government were justifiable if defaults did not exceed 40 to 60 percent of the loan value.

- Export loan guarantees by the state government were justifiable if defaults did not exceed .5 to 1.5 percent of the loan value.

PART IV

SUMMARY OF FINDINGS

EXECUTIVE VIEWS, EXECUTIVE SOLUTIONS

CASE ANALYSIS

EXECUTIVE VIEWS

A summary of findings based on in-depth interviews with the executives of the six firms are:

1. All of the executives of the six companies indicated that lack of export financing was a very real problem for them and they thought that their financial future and the future of their companies and employees were threatened by subsidized export financing offered to their foreign competition.

2. The executives thought that the financial incentives provided by the Eximbank were inadequate to meet the competition from their foreign competitors.

3. The executives thought that the Eximbank interest rates were not competitive with foreign rates, that is, foreign governmental financial incentives offer interest rates one to four percentage points below Eximbank rates. This point was documented with several specific examples.

4. The executives thought that the Eximbank did not understand their competitive problem, their need for financing, and was unresponsive to their needs in advance of negotiations. Without advance commitments, firms cannot negotiate effectively for a contract.

5. The executives thought there were apparent gaps in communication between their companies and government agencies where either no solution was reached or a promise for a solution was made but then forgotten.

6. There was a general feeling that other countries, notably Japan, would develop market strategies in their industries that would eventually lead to their demise. (The products ranged from machine tools to panty hose.)

7. Present policies of foreign governments with the lure of attractive financing are encouraging companies to build factories abroad.

8. There was a general feeling that the United States was trying to play a fair game in international markets but that other trading partners were not playing fairly or by the same rules.

9. There was a general feeling of an immediate need for a solution to the competition problem.

10. They stressed that in regards to export financing they only wanted a chance to compete on an equal basis with foreign firms.

EXECUTIVE SOLUTIONS TO PROBLEM

The solutions recommended by the executives were uniformly straightforward.

(1) The Eximbank should provide competitive financing for small and medium-sized export firms. This means that the Eximbank would guarantee that it would meet the rates and terms of the foreign competition in advance. The key ingredients are:

(a) meet the competitive interest rate,

(b) meet the competitive terms of the loan, (duration, grace period, and portion financed)

(c) make the commitment in advance.

(2) FCIA should make it easier to provide insurance for loans made to foreign companies against political risk, since guaranteed loans would help. This can be achieved by reducing the stringent requirements placed on the borrowers.

(3) The thinking of the executives was that the federal government should do the job through the Eximbank rather than have it done through a state Eximbank. The present organization, responsive to their needs, would be more effective in fighting the competition now.

(4) The notion was generally held that the firms could handle price and quality competition but not the governments of other countries. They therefore thought that having the U.S. government help them compete against other governments was appropriate. They also wanted an officer of the U.S. goverment assigned to them for help.

SUMMARY OF FINDINGS BASED ON CASE ANALYSIS

The investigation showed that a major cause for the loss of contracts by these firms was the lack of competitive export credit financing. In all six cases another major cause of lost contracts was the overall world recession. However, clearly 66 percent of the six companies would have continued to fare well even in a worldwide recession if competitive export credit financing had been available. The remaining companies would not have improved their operations, but they would have produced more from their U,S. facilities. Even in these two cases, the existence of competitive export credit financing would have been cost effective to the United States. The benefits to the U.S. economy would have exceeded the cost of the financing incentives.

In general, the quality and price competitiveness of the products of the six companies included in the study were impressive. The companies seemed to be well managed, producing goods of superior quality, and the marketing skills of the companies were well developed. The lack of competitive export financing, however, has resulted in a major loss of sales, a substantial level of lay-offs, and profit losses to the companies. The companies that were most export dependent have, in general, fared worse in this environment.

The individual case studies analyzed the loss of specific contracts and their impact on the state, the federal treasury, and U.S. economy in terms of jobs, tax revenues, and cost of supporting unemployed workers. The calculation was done for the firms that lost contracts as well as for the firms that would have supplied these companies with products. The secondary impact is calculated using the multiplier parameters from the literature survey. The results are summarized in Table I-1 below and indicate that the return to the U.S. economy for direct export credit financing offered to the six companies at three interest rates (6, 8, and 10 percent) would have yielded very attractive returns. The range of the return varies depending on assumptions on additionality of exports as well as the multiplier that the additional exports would have within the economy. However, even with conservative

Table I-1

AVERAGE INTERNAL RATE OF RETURN* ON FEDERAL TREASURY FUNDS FOR DIRECT EXPORT CREDIT LOANS**

6 Percent Lending Rate				8 Percent Lending Rate				10 Percent Lending Rate			
	A***40	50	60		A***40	50	60		A***40	50	60
M				M				M			
2	13	16	17	2	15	18	19	2	17	20	21
2.5	16	18	20	2.5	18	20	22	2.5	20	22	25
3	17	20	28	3	19	22	31	3	21	25	34

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*The internal rate of return is the average annual return to the agency for funds investe other words for every dollar invested the federal treasury would receive (in the case of 8 percent with 50 percent additionality and 2.5 multiplier) an annual 20 percent return in addition to the invested.

**Loan of 75 percent of contract amount for interest rate of 6, 8 and 10 percent. Mulitpli 2, 2.5, and 3.0 and additionality of 40, 50, and 60 percent. Calculated as simple average of our sa six case studies.

*** 'A' represents additionality in percent; 'M' represents multiplier effect.

assumptions of 40 percent additionality and a 2.0 multiplier, the return to the federal and state treasuries of export credit financing is high enough (11 to 21 percent annually) to justify its offering to exporters. With 60 percent additionality and a 3.0 multiplier, the return of 21 to 46 percent annually is extraordinary.

This set of calculations undertaken for the U.S. Treasury revenue stream alone indicates that the returns are not much lower than those for the state and federal treasuries combined. From the standpoint of the federal treasury, benefits derived from export credit financing are substantial and yield a return that ranges from 11 to 46 percent for direct export loan schemes. Table I-1 shows a simple average of the internal rate of return in the six cases we interviewed. Even with 40 percent additionality and 2.0 multiplier assumptions the return on an export financing plan charging 8 percent would yield a return on the government funds of 15 percent.

In the study we also looked at the return to five state treasuries on export credit financing offered by the states. While the federal treasury would benefit substantially from such programs, the returns to the states' treasuries would not be as high as those to the U.S. federal treasury in these cases. That is because the federal treasury is the recipient of most income and corporate tax revenues. The incidence of tax rests on the U.S. treasury. It is also the federal government that indirectly pays for unemployment benefits.

There was substantial variation among the states. As expected, the return to the treasury of the states with very low or no state individual or corporate income taxes, and with limited sales taxes, such as the state of Texas, was low and only marginally higher than what they would have charged on the export credit financing. In contrast, states with higher individual and corporate income tax rates, such as Michigan, would have a higher rate of return ranging from 9 to 11 percent on an 8 percent export credit loan.

It is clear that under any reasonable set of assumptions the return on export credit financing would be high enough to justify its offering. The return to the federal treasury for export financing plans would be much higher than if offered by the states. Yet many states with individual and/or corporate income taxes, could, in the absence of acceptable federal export financing, justify the offering of export financing to its exporters.

In summary, the U.S. treasury would receive an excellent return on its investment in low interest rate loans through the Eximbank. The bulk of the money would be returned in one year and would provide an 18 to 20 percent return on investment assuming an interest rate of 6 or 8 percent, a multiplier of 2.5, and an additionality of .5 percent. In an underemployed economy this would provide an excellent return.

With regard to interest buy downs on equalization schemes, given that the federal treasury would receive 25-55 cents on every dollar of loan in year 1, it could afford to buy down the annual interest on loans by an enormous 4 to 25 percent of the value of the loan. The state government on the other hand would only receive 2 to 4 cents on every dollar of loan in year 1 and could only afford to buy down the annual interest on loans by at best 3 percent of the value of the loan. These figures also indicate that with regard to loan guarantees, the federal government could offer loan guarantees if defaults are below .5-55 percent of the loans while the state government is only justified in giving loan guarantees if defaults are below 3 percent. Loan guarantees could effectively reduce the cost of export loans to small exporting companies by 4 percent annually.

ANNEX I
THE COST/BENEFIT ANALYSIS OF THE EXPORT FINANCE SUBSIDY AND LITERATURE STUDY

SUMMARY OF LITERATURE FINDINGS

Government support for export financing can take many forms, all of which amount to direct or indirect subsidies for exports. Official credit programs of the United States provide three basic types of financial support for exports. First, direct loans are made to finance exports either as buyers' credits or suppliers' credits, depending on the arrangement made between the U.S. exporter and the importer. The direct loan is provided at a fixed interest rate at a level below prevailing market interest rates.

The second type of program involves insurance, covering a major portion of the principal and at least some of the interest of an export loan made through commercial channels. In the United States the basic coverage is for political and/or commercial risk.

The third type involves guarantees for a major portion of the export financing provided by commercial banks.

These programs all have the effect of making credit available at terms more favorable than could be provided in their absence. The subsidy element is present in the difference between the cost and availability of credit in the presence and absence of official export credit programs.

There have been a number of studies to evaluate the economic benefits and costs of the export finance subsidy. Most of the study results were used as the basis for arguments either for or against specific subsidy programs.

The purpose of this literature survey is to provide an objective analysis of various studies in terms of their methodologies and conclusions regarding the costs and benefits of export finance subsidies.

ECONOMIC BENEFITS AND FINDINGS

Many studies have attempted both to prove and to quantify direct as well as indirect economic benefits from an export finance subsidy. These benefits are alleged to arise from two principal factors: the multiplier effect and additionality. An export subsidy is seen to lead to net export gains which would spread throughout the entire economy. These "ripple" effects would be magnified through the income multiplier. The subsequent rise in GNP would lead to increased tax revenues which could more than offset the initial subsidy cost.

The multiplier effect is crucially related to the net export gains that the export finance subsidy is thought to provide. The extent of net export gains due to subsidy is known as additionality. Many studies have been made to measure the extent of additionality.

THE MULTIPLIER EFFECT

WHARTON STUDY: Wharton Econometric Forecasting Associates (WEFA) recently conducted a study commissioned by Westinghouse Electric Corporation*. The study used WEFA's basic econometric model of the United States to estimate the effects on government receipts and expenditures of the export sale of subway cars and related equipment to the Buenos Aires Subway. The results show that export sales, supported by Eximbank financing, effected increases in domestic production, employment, income, and government receipts. The study, using the econometric model, first estimated the net increase in the U.S. gross national product due to the export sales, then calculated incremental government tax revenues resulting from the GNP increase.

To determine Eximbank's borrowing cost, it was assumed that the Bank would borrow at the 3-5 year government bond rate. From the resulting interest cost of borrowing, the total interest payments received from the subsidized export credit were subtracted to obtain the net borrowing cost to Eximbank. Finally, the Eximbank's net borrowing cost was subtracted from the incremental government tax receipts to arrive at the net gain to the government.

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*Wharton EFA, Inc., "Budd Company and Westinghouse Electric Corporation, Buenos Aires Subway Contract: Net Impact on the Government of Export-Import Bank Financing," Philadelphi Pennsylvania, undated.

The study assumed two different types of Eximbank loan rates: a 9 percent rate with 17 semi-annual repayments and a 10 percent rate with 24 semi-annual repayments. The net cumulative gain to the U.S. government of the 9 percent loan is shown as $762.4 million in 1981 dollars. The 10 percent loan would lead to a net gain of $823.5 million, again in 1981 dollars.

Net Gains to U.S. and Local Governments
(Millions of 1981 Dollars)

	Entire Loan Period
Net Increase in U.S. Government Receipts minus Outlays	848.1
Net Interest Cost to Ex-Im Bank (9 percent Loan)	85.7
Net Gain to U.S. Government with 9 percent Loan	762.4
Net Interest Cost to Ex-Im Bank (10 percent Loan)	24.6
Net Gain to U.S. Government with 10 percent Loan	823.5
Net Increase in State plus Local Government Receipts minus Outlays	186.6

The Wharton study showed that with a total of 732.0 million 1972 dollars of production sold to the subway project over the years 1981 through 1991, a GNP increase of 1.6 billion 1972 dollars would be realized, yielding an income multiplier of 2.2 times the initial expenditures. Of this, the U.S. government would receive 32.5 percent via increases in tax revenues over the period, while state and local governments would receive 3.1 percent via increased tax revenues.

CRITIQUE OF WHARTON STUDY: Criticism of the Wharton study was made by the Eximbank staff on two main counts: technical and conceptual. The use of the discounted present value method in the Wharton study was criticized as improper and misleading on technical grounds. Present value is relevant in evaluating *investment-type* (financing) decisions by indicating how much future income must be received to maintain the present purchasing power of the original investment in light of the impact of inflation on future receipts. Instead of the present value method, the Eximbank staff recommends using the discounted cash flow method which is more relevant in evaluating *consumption-type* (alternative) decisions by indicating how much future outlay costs in today's dollars. The same nominal outlay costs less the further out in time it is made. The Wharton study measured only the present *financial* cost to Eximbank of future subsidy payments; however, the present *economic* cost to the country is the loss in value of the resources between when they were invested and when they were repaid. Consequently, the Wharton study cost estimates were "some one-tenth the size that standard mathematical calculations would yield."[*]

Regarding conceptual issues, the Eximbank staff found that the study failed to answer directly the crucial question: Why should the money be spent to support output through Eximbank instead of agriculture, home building, or mass transit? The Wharton study failed to account for the fundamental fact that "all" expenditures in an underemployed economy necessarily create the multiplier effect, and therefore the study failed to compare alternative expenditure requirements facing the government. Rather, the study implied that the answer to the question of why allocate resources to Eximbank is that "all" actions having a net benefit, through a multiplier, should be undertaken, regardless of the implication for limitless ballooning of government expenditures.

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[*] Jim Cruse, "Critique of Westinghouse/Wharton Cost-Benefit Analysis of Ex-Im Bank Cr Support," U.S. Export-Import Bank unpublished memorandum, undated.

There were other weaknesses in the study not mentioned by the Eximbank staff. For example, the study failed to consider the implications of the possibility that the subway project export may still be made even in the absence of the Eximbank support. The study also did not make explicit the implications of the subsidized export, such as a potential dollar appreciation and its negative effect on other nonsubsidized export price inflation in a full-employment economy, and the income distribution effect of the export subsidy. Other reports have also tried to calculate the multiplier effect of exports in the economy. These estimates range from a low of 1.5 to a high of 3.5. The U.S. Chamber of Commerce, for example estimates a range from 2.0 to 3.5, however, the most probable multipler figure is estimated between 2.0 and 2.5 and is in line with the Wharton study reviewed above.

ADDITIONALITY

One may define additionality simply as a measurement of the net increase in value of U.S. exports that result from official export financing programs. If it can be demonstrated that a substantial portion of export sales that use government credit support would not be made in its absence, then it is reasonable to assume that additionality exists in that case, but one should also consider the effect on nonsubsidized exports. Therefore, it is difficult conceptually, as well as practically, to determine the degree of additionality of government export credit programs with any precision, when we consider the total macroeconomic effects on subsidized and nonsubsidized exports.

Two primary methods have been used to measure additionality. The first method involves the use of quantitative procedures, including econometric analysis. The second method involves a survey of export transactions that asks whether the official credit support or its absence was decisive in the ability or failure to export. Both methods, however, have inherent weaknesses, which make their results less than conclusive.

BOHI STUDY: Douglas Bohi, in his 1972 study*, statistically tested the effectiveness of Eximbank activity in promoting U.S. exports. He first hypothesized that, if Eximbank activity had a significant influence on exports, then a relationship should exist between changes in exports and Eximbank authorizations to different countries. Yet, on the basis of a sample of 33 trading areas for 1968 through 1970, he found no significant relationship. He then tested the relationship between Eximbank authorizations and the expansion of U.S. exports by type of commodity rather than by country of export destination. A simple regression test on a sample of 12 commodity classes of U.S. exports for 1966 through 1969 showed again no significant relationship.

The crucial weakness of the Bohi study was that it did not isolate additionality resulting from official export subsidy programs from other important competitive factors such as product quality, technology, after-sale service, marketing efforts, delivery terms and prices. Considering the overwhelming importance of the latter, it is no wonder that the Bohi study failed to establish any significant relationship between Eximbank authorizations and "aggregate" export performance either by importing country or by export commodity.

U.S. TREASURY STUDIES: The U.S. Treasury Department twice has attempted to measure the additionality factor in Eximbank programs, one for FY 1976 programs and the other for FY 1978 programs. Treasury defines additionality narrowly as "the probability that Eximbank programs have in fact fostered U.S. exports by overcoming capital market imperfections and by meeting the competition of foreign official export credit agencies."* Additionality, defined in this way, was not meant to measure Eximbank's total impact either on overall U.S. exports or on the U.S. trade balance. The study only attempted to calculate export sales booked as a result of the Eximbank presence.

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*Douglas R. Bohi, "Export Credit Subsidies and U.S. Exports: An Analysis of the U.S. Bank" in Joint Econonomic Committee, The Economics of Federal Subsidy Programs: A Comp of Papers, U.S. Congress, June 1972.

To determine the probability that the export value supported by each Eximbank commitment was additional, the study examined the selected characteristics of every commitment for FY 1978, such as the degree of access by an importing country to private capital markets, the term to maturity of Eximbank credits, size of credit, and the foreign official export credit competition. Basically, the study determined the extent to which these characteristics differ from export financing norms believed to exist in private markets. To the extent that Eximbank credit characteristics fall outside perceived norms in private markets, a higher probability of additionality is assumed. The overall probability of additionality of exports associated with Eximbank commitments was then calculated as the weighted average of individual probabilities, using the export value supported by individual commitments as the weights.

The Treasury study concluded that some degree of additionality existed for all three of the major types of Eximbank programs (direct loans, guarantees, and insurance) for both FY 1976 and FY 1978 program studies and is summarized below.

Additionality of Three Eximbank Support Programs

	Loans	Guarantees	Insurance
Aggregate Additionality			
FY 1976 Programs	64%	31%	27%
FY 1978 Programs	72%	34%	33%

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*U.S. Treasury, "United States Treasury Report on the Additionality of U.S. Export-Import Bank ms in Fiscal Year 1978," Washington, D.C., January 1980.

CRITICISM OF TREASURY STUDY: The General Accounting Office criticized the methodology of the Treasury study as "circular" logic.[*] It argued that the study defined additionality in such a way that virtually guaranteed the conclusion as noted above. GAO found circular the arguement that "to the extent that Eximbank credit characteristics fall outside of perceived norms in private markets, a higher probability of additionality is assumed." Since Eximbank has been part of the international lending system for over four decades, those "private capital market norms" are likely to be what they are, precisely because Eximbank dominates the long-term market.

CONGRESSIONAL RESEARCH SERVICE STUDY - 1978: Another quantitative study was undertaken by the Congressional Research Service (CRS).[**] Unlike the Treasury findings, the CRS study showed the additionality generated by the Eximbank's FY 1976 direct loan program only at about one-eighth the Treasury estimate for aggregate additionality. The CRS methodology assumed that the subsidy component of the Eximbank loan program was in effect a lowering of price to the importer. The study attempted to measure the response of importers to that cut in price. It was for this reason that the CRS study made no attempt to include the additionality that might come from the guarantee and insurance programs run by Eximbank. The reduction in the price of the export cannot be calculated in the case of the guarantee and insurance programs with the same precision as it could be in the case of direct loans, where the market and subsidized rates of interest are known.

CONGRESSIONAL RESEARCH SERVICE STUDY - 1976: An earlier CRS study made a rough estimate of additionality of U.S. power plant exports supported by

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[*] U.S. General Accounting Office, To Be Self-Sufficient or Competitive? Eximbank Ne Congressional Guidance, Report to the Congress, June 24, 1981.

[**] Jane Gravelle, Impact of Eximbank on U.S. Exports, Congressional Research Service, T Library of Congress, April 25, 1978.

Eximbank from 1973 through 1975.[*] Assuming an additionality of zero for nuclear power plant exports to advanced nations, 50 percent to intermediate nations and 100 percent to less developed countries, the study crudely concluded that at least 10 percent and perhaps as high as 50 percent of free world nuclear power plant exports during the 1973-75 period could be considered "additional."

CASE HISTORIES

Surveys of individual case histories have also been used to measure additionality. In a review of 140 cases offered direct loan support by Eximbank during the 1978-79 period, Eximbank determined that of the 55 export sales that U.S. firms did not win, seven sales were lost because of insufficiently competitive financing.[**] This did not include cases where Eximbank believed noncompetitive financing contributed to a loss but was not the primary reason, or cases where Eximbank could not determine the reason for a loss.

GAO STUDY: The General Accounting Office made a questionnaire survey of exporters about specific 1978 sales for which Eximbank offered long-term financing.[***] The 86 responses identified 10 sales, valued at $434 million, that were lost to foreign competitors primarily because of noncompetitive financing. The 10 cases did not include exporters who did not formally request Eximbank financing because the expected financing terms were known to be unsuitable. These firms indicated that 44 potential sales, valued at about one-half billion dollars, were lost because they were unable to arrange for competitive financing.

The additionality of exports due to competitive export credit financing is highly speculative. No doubt it depends on the industry, the level of economic activity, as well as many other economic factors. Yet for capital goods, additionality ranges between 30 percent and 70 percent and is most probably between 50 percent to 60 percent. This figure is in line with most of the studies reviewed.

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[*] Congressional Research Service, "The Economics of Export Promotion," an internal C morandum, 1976.

[**] U.S. General Accounting Office, Financial and Other Constraints Prevent Eximbank Fr nsistently Offering Competitive Financing for U.S. Exports, Report to the Congress, April 30, 1980.

[***] Ibid, pp. 10-11.

COSTS OF SUBSIDY PROGRAMS

The U.S. economy is predicated on the belief that, as a general rule, free markets provide the most efficient allocation of resources possible. Critics of official credit support programs, both export and nonexport related, claim that subsidies in general represent a diversion of resources from higher, more efficient uses to lower, less productive uses. For example, a 1981 study by the Congressional Budget Office argued that U.S. citizens were paying additional (net) costs of between $200 million and $1 billion annually for Eximbank programs.* It alleged that the added costs were largely redistributed from nonbeneficiaries to U.S. exporters, foreign importers and banks, with the remainder absorbed in efficiency loss.

According to the study, when Eximbank subsidized direct loans were made in a fully employed economy, or otherwise increased export volumes by reducing domestic output or by increasing imports, nonsubsidized U.S. citizens gave up domestic investment opportunities that would have earned the market rate of interest. Alternatively, they may borrow to finance additional imports and incur additional foreign debts on which they paid interest at the market rate. The subsidized Eximbank loan returned only part of the loss because it earned the lower, subsidized interest rate. U.S. citizens as a group recaptured part of the loss to the United States through increased profits of U.S. exporters. But since there will typically be some net transfer to foreigners or some loss from the inefficient shift of resources out of areas where they were being profitably used before the subsidy, without an offsetting gain in economic efficiency, the losses to U.S.

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*Congressional Budget Office, "The Benefits and Costs of the Export-Import Bank Loan Su Program," Washington, D.C., June 1981.

citizens exceeded the gains to the industries being subsidized. The study therefore concludes that the United States as a whole must lose from the program.

One weakness of the CBO study is its assumption of a full-employment U.S. economy which is generally not a true picture of reality. Because of this extreme assumption, the CBO study either does not recognize additionality for the total economy in the absence of either a corresponding decline in domestic consumption/investment or a similar increase in imports.

From the national income identity,

$$Y = C + I + G + (X - M).$$

If the economy is at full employment, so that Y is at its maximum $(Y = \hat{Y})$, rearranging the identity produces:

$$X = \hat{Y} - C - I - G + M.$$

For additionality to occur, therefore, consumption, investment, or government expenditure must fall, or imports must rise. However,it should be clear that when the economy is less that fully employed, additionality can take place out of additional production.

John Boyd examined a study of Eximbank's subsidy cost to the U.S. economy. He arrived at an estimate of about $200 million per year for the 1976-80 period.[*] He found that the subsidy cost increased substantially over the sample period and by 1980 may have reached as high as $650 million. Admitting that the "indirect" costs and benefits of Eximbank are hard to identify and measure, Boyd concentrated on "direct" costs and benefits, using the risk-adjusted discount rate derived from the loan portfolios of major commercial banks. This study, however, is rather narrowly focused, ignoring the impact of Eximbank programs on export demand, employment, and inflation. His main thrust is whether Eximbank financing of U.S. exports is preferable to commercial financing.

[*] John Boyd, "Eximbank Lending: A Federal Program That Costs Too Much," Federal Rese
of Minneapolis Quarterly Review, Winter 1982.

Therefore, the study's ultimate conclusion that the costs of Eximbank financing outweigh the benefits, is based on incomplete and partial consideration of all relevant factors.

ANNEX II

LITERATURE SURVEY

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ANNEX III

EXECUTIVES INTERVIEWED

COLUMBIA MACHINE, INC., 107 Grand Boulevard, Vancouver, WA 98661

Mr. Fred Neth, Sr., Chairman of the Board

Mr. Walter Neth, Vice President - Special Products

Mr. Gordon W. Smith, Corporate Credit Manager

Mr. John B. Klattenhoff, Sales Manager, International Sales Division

THE CROSS COMPANY, 17801 Fourteen Mile Road, Fraser, Michigan, 48026

Mr. Ralph E. Cross, Jr., President

Mr. Robert T. Jeffares, V-P Finance and Treasurer, Cross & Trecker Corporation

Mr. Robert H. Lambertsen, Vice President, Marketing

Mr. O. Thomas Evans, Sales Manager, Export

THE FRENCH OIL MILL MACHINERY CO., Piqua, Ohio, 45356

Mr. Daniel P. French, President

Mr. Evan A. Werling, Vice President and Treasurer

F. JOS. LAMB CO., 5663 E. Nine Mile Road, Warren Michigan, 48091

Mr. Carlton R. Lindell, President and President Lamb Technical

Mr. Paul Stoffa, Group Vice President, Planning and International Marketing

Mr. John D. Borseth, Vice President Sales and Marketing

Mr. Robert C. Dennis, Treasurer

PETROTECH, 108 Jarrell Dr., P.O. Box 503, Belle Chase, LA 70037

Mr. Doug Moore, P.E., President

Mr. Henry Donald Seaton, Consultant

SOFEC, 2000 West Loop South, Suite 990, Houston, Texas 77027

Mr. William L. Kiely, President

Mr. Robert H. Gruy (P.E.), Senior Vice President

Mr. Sylvan Schwartz Jr., Vice President - Finance

JUN 22 1983

June 20, 1983

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
District Office
1700 Westlake Avenue North
Seattle, Washington 98109
206-442-5615

MEMORANDUM FOR: Washington Export Council Members

FROM: Eric C. Silberstein, Director
U.S. Dept. of Commerce/ITA

SUBJECT: Export-Import Bank Charter Renewal
Questionnaire Tally Sheet

Enclosed is the latest tally sheet of responses from DEC members on the mission of the Export-Import Bank.

Enclosure

AS OF [illegible]

EXPORT-IMPORT BANK CHARTER RENEWAL

QUESTIONNAIRE TALLY SHEET

ALL DEC MEMBERS
RESPONDING TO DATE

1. The Eximbank's primary mandate should be to competitive with foreign nation's financing.

Strongly agree	65
Agree	11
Disagree	3
Strongly Disagree	1
No Comment	-

2. The Eximbank's primary mandate should be to be self-financing.

Strongly agree	6
Agree	19
Disagree	34
Strongly Disagree	7
No Comment	14

3. The Eximbank should allocate a greater proportion of its program resources to exports from the small and medium sized business sector.

Strongly agree	39
Agree	29
Disagree	6
Strongly Disagree	2
No Comment	4

4. Eximbank should allocate a greater proportion of its program resources to medium-term transactions (1-5 years)

Strongly agree	24
Agree	35
Disagree	11
Strongly Disagree	4
No COmment	5

5. Eximbank should allocate a greater proportion of its program resources to short-term transactions (up to 1 year).

Strongly agree	22
Agree	15
Disagree	23
Strongly Disagree	10
No COmment	10

6. There should be no change in Eximbank's charter.

Strongly agree	3
Agree	3
Disagree	27
Strongly Disagree	26
No COmment	20

As of 5-31-83

EXPORT-IMPORT BANK CHARTER RENEWAL
QUESTIONNAIRE TALLY SHEET

ALL DEC MEMBERS
INDICATING LESS THAN 250 EMPLOYEES

1. The Eximbank's primary mandate should be to competitive with foreign nation's financing.

Strongly agree	26
Agree	6
Disagree	1
Strongly Disagree	0
No Comment	0

2. The Eximbank's primary mandate should be to be self-financing.

Strongly agree	4
Agree	8
Disagree	11
Strongly Disagree	3
No Comment	5

3. The Eximbank should allocate a greater proportion of its program resources to exports from the small and medium sized business sector.

Strongly agree	22
Agree	9
Disagree	0
Strongly Disagree	0
No Comment	1

4. Eximbank should allocate a greater proportion of its program resources to medium-term transactions (1-5 years)

Strongly agree	10
Agree	12
Disagree	4
Strongly Disagree	3
No COmment	2

5. Eximbank should allocate a greater proportion of its program resources to short-term transactions (up to 1 year).

Strongly agree	12
Agree	5
Disagree	8
Strongly Disagree	2
No COmment	5

6. There should be no change in Eximbank's charter.

Strongly agree	1
Agree	3
Disagree	7
Strongly Disagree	9
No COmment	11

Mr. IRELAND. Mr. Kato.

TESTIMONY OF CARL KATO, MANAGER, WORLD TRADE DEPARTMENT, PORTLAND, OREG., CHAMBER OF COMMERCE

Mr. KATO. Just to summarize here, the Portland Chamber of Commerce has 3,411 members. We have a budget of $1,250,000. We have a staff of 25.

I guess our activities, particularly in concentrating on the World Trade Committee's activities, are similar to other chamber committees that you probably have talked to around the country. We do take official positions. We are against the domestic content legislation. That is an official position that we have related to Congressman Wyden's office and the other Oregon delegation. We are for a tax-incentive program. It was DISC. Now it might be something else.

We are against the waterway user's proposal.

Just going on, we have the other activities. We cosponsor seminars, conferences and workshops along with the State, along with the Small Business Administration, along with the U.S. Department of Commerce. This is to keep our membership fully informed as to what the latest developments are. One of the areas where we have kind of taken a lead is in the area of getting the awareness of international trade out to the general public. We feel that it is the public out there that if he doesn't understand the consequences or the importance, the impact of international trade, he is not going to be behind us when we go out and ask for help at the polls, when he is voting on rules and regulations. So one of the programs we as a World Trade Committee have tried to do is go out and educate the general public to the importance of international trade.

One of the things that we have done in that regard is during World Trade Week, we started a poster contest for school-age children from kindergarten through 6. The winning poster is printed on a major grocery chain shopping bag for 2 weeks, with the World Trade schedule on the other side. Of course, the other posters are displayed at bank malls, shopping malls, bank lobbies, and these kinds of places. They get a lot of attention, the awareness of international trade is out there in the public, and we think that it is a start.

The other point I would like to make is that in a State like Oregon, where almost half of the population is in the Portland metropolitan area, there is a tendency for a "them and us polarization" by the rest of the State—in other words, "They get everything because they are the Portland metropolitan area." What we have tried to do, and we started 3 years ago, is we try to take our business people out into the other areas of the State and provide programs, so that we became a part of the "providing" the programs.

Our first year we were down to the legislature and we had William Ruckleshaus, then the senior vice president of Weyerhaeuser Co. speak to us on international trade along with the legislature. Last year we took a Burlington Northern train with business people up to Astoria, where our speaker was Mark Hatfield. This year the Southern Pacific provided us a train to take our business people down to Coos Bay, where the Governor presented his export marketing firm of the year awards at a dinner meeting down there. And again, it was Portland people and the Portland chamber involved as part of the "us" putting on the programs. And we are trying to break down that barrier of a "them-us" situation hopefully.

I know when Phil Bogue and Dr. Manning were up here, they were talking about the new center they were going to open up at Portland State. I think in order for that to be very effective, there is going to be some turf protection areas that have to be overcome in that respect, too.

As a Portland chamber, we have worked with the State legislators and discussed some of these things. I know Oregon State, the University of Oregon, some of the other schools have certain programs that they are not going to relinquish. So this turf protection thing is something else I feel we need to become involved in to overcome.

That is the gist of my testimony.

Mr. IRELAND. Thank you.

[Mr. Kato's prepared statement follows:]

PREPARED STATEMENT OF CARL KATO, MANAGER, WORLD TRADE DEPARTMENT, PORTLAND, OREG., CHAMBER OF COMMERCE

Good morning. My name is Carl Kato and I am the Manager of the World Trade Department of the Portland Chamber of Commerce, 824 SW Fifth Avenue, Portland, Oregon, 97204. The Portland Chamber of Commerce has 3,411 members and an annual budget of $1,250,000. Thank you for inviting me to participate today and for taking the time to set up these hearings.

The Portland Chamber of Commerce agrees that the future of this nation is directly linked to how competitive our businesses and industries are on the world market. We, as organizations and individuals, must do our part to make certain that firms have the knowledge, information, product quality, financing and other qualifications to meet the competition head on. Taking part in these hearings is just one more way to accomplish that goal.

Today you have heard from many of our members on specific topics and issues. The Portland Chamber of Commerce, too, has taken an official position on many of these issues, and we have relayed them to our congressional delegation. We have opposed any domestic content legislation. We have opposed the "Waterway User's & Recovery Acts" and supported "Waterways Transportation Development & Improvement Tax, 1981". We are for the DISC or a Tax incentive program that might be DISC's replacement. We backed the rechartering of the Eximbank and we are encouraged that they are looking at helping to finance the medium to small exporter. We have stated that we are for export controls when they truly involve strategic technology but in many cases the technology we refuse to sell is being purchased from the U.S.'s competitors.

Our World Trade Committee, officers and Board of Directors are keenly aware of the importance of trade to our community are involved in promoting and expanding exports. The Portland Chamber has been closely involved with the Governor's Export Marketing Firm of the Year selection and presentation from the inception of the program. This program recognizes the outstanding efforts to increase export sales by firms, large and small, and in turn is an incentive for other companies to become involved in export.

The Chamber uses its inhouse publication to disseminate trade opportunity information that arrives at our offices. As inquires are received from our members, we provide the detailed information for follow up. Our members report that some of these contacts have resulted in substantial transactions.

Many times people come to the Chamber of Commerce as their first stop in attempting to enter the international trade market. Some of these individuals are not aware of the financial and time commitment involved. In these cases we try to make certain that they have sufficient information to make a good decision.

Counseling is also provided to those already in business who may want to increase or expand. This may be in the form of referrals to other agencies with specific information.

The Portland Chamber of Commerce also sponsors and co-sponsors seminars, work shops and conferences to keep our members fully informed on the latest developments. The U.S. Department of Commerce, the Small Business Administration and the State of Oregon Department of Economic Development, International Trade Division are agencies with which we have particularly close working relationships.

Our Chamber has taken the lead in actively seeking consular representation for Portland. As you know many countries require consular documentation and having to send documents off to Seattle, San Francisco, or Los Angeles in a time consuming exercise may be a deterrent to the potential exporter. And speaking of documentation, the Chamber also provides the international community with Certificates of Origin service.

The Chamber has also helped promote Trade missions to Latin American and Southeast Asia as well as trade, shows and exhibitions. Participation in these activities have resulted in expanded markets and increased trade, not only to the firms involved, but to many others through a ripple effect.

We also feel it is the general public that must be educated if we expect support for legislation, rules and regulations favorable to world trade. John Q. Public must understand the impact of trade, not only on the economic system, but its direct effect upon them.

Four years ago during World Trade Week, we started a world trade poster contest for K-6 grades. It has expanded throughout the Metro area including Vancouver, Washington. The winning drawing is printed on a major grocery chain shopping bag for two weeks, along with the World Trade Week schedule. The other posters go on display at various shopping malls and bank lobbies, attracting a great deal of attention. It is not a 2 x 4, but it does create an awareness that was not there before.

In a state like Oregon where one half of the population is in the Portland Metropolitan area, there is a tendency for a "them & us" polarization by the rest of the State. Even though Portland may be the center for international trade in Oregon, we realize that without a unity and support of all Oregonians, progress will be impeded. To address this concern, the World Trade Committee of the Portland Chamber began taking a major program each year to other parts of the State. The first year our businessmen met in Salem with the legislators and our luncheon featured William Ruckelshaus, then a senior vice president with Weyerhaeuser Company. Last year we utilized a special Burlington-Northern train and took a group to Astoria for a luncheon featuring Senator Mark Hatfield. This year Southern Pacific provided us a train to Coos Bay and the Governor presented his Export Marketing Firm of the Year awards at a dinner meeting. In each case, the local organizations (ports and chambers of commerce) received a great deal of exposure while promoting international trade. The people of Portland and the Portland Chamber were a part of the "us" putting on the program.

These efforts have also created an interest and involvement in other areas.

Oregon Governor's Commission on Foreign Languages and International Studies was formed to identify ways of developing higher levels of international awareness and competence. Many Chamber members were appointed to the Commission and many others were asked to testify at public hearings. We were deeply involved in this process and are active in efforts to attain the goals and objectives.

Most recently, the Portland Chamber has been asked for input on a proposal to form an Institute of International Business and Area Studies Center at Portland State University. The proposed programs will focus on cultural studies, languages, and customs as well as international marketing, credit management and other pertinent business courses. To be effective, there should be no barriers with regard to interdisciplinary crossover and the Center should be able to draw talent and expertise from other State and private institutions. This is another area where "turf protection" must be overcome and the Portland Chamber is working with legislators to see this is done.

The Portland Chamber is dedicated to the expansion of small business exports and development of overseas markets. We thank you for inviting us to participate in these hearings and look forward to the positive results.

Mr. IRELAND. I want to make a quick remark or two and then ask Congressman Wyden to say a word.

Mr. Kato, I won't hold you entirely personally responsible, but I know that Mr. Dick Armstrong of your fine chamber was stolen from my district. We will forgive you for that and compliment you on the good taste you had in bringing him to Portland. He is a fine man.

Mr. WYDEN. By the way, we are not giving him back.

Mr. IRELAND. Let me say to you, Mr. Smith, that as far as I am concerned, you are on the right track with the Eximbank. With the help of Congressman Wyden, hopefully with the help of the two Senators from Oregon, an initiative that I sponsored on behalf of small business to take the Export-Import Bank and turn it into something that is not just lip service to small business will take place. We have passed it through the committees of the House, we have some substantial support in the Senate.

The thrust is in the two areas that you pointed out—competitive financing and the designing programs that truly help small business. We have that age-old thing, and it happens in commercial banks and the private sector, too. It is just as easy to make a $10 million loan as a $1 million loan. The only thing is you only have to make it once instead of 10 times, and it is a whole lot more glamorous. It is time we put a stop to that.

You have some good friends in the Eximbank. I do, too. The problem, though, is one of turf. The problem is one of people getting out and doing a job. The Eximbank needs to come into the real world, to help people such as yourself. You are not alone in that kind of a description. It will be very helpful to us. And we appreciate your help.

To you, Mr. Bright, I want to say that your emphasis on incentives and those of Mr. Kato seems to me where we have to go. Your insight there will be very appreciative.

Mr. Wyden.

Mr. WYDEN. Thank you, Mr. Chairman.

Carl, I think the point you made about education is really the key. I stood up in a lot of labor halls and others, and people are screaming that the only way to protect their jobs is to bar all the imports. As we make this effort to go out and educate people, I think we can turn some of this around, because I think people will see there are more jobs in promoting exports than slamming the door shut and insulate ours from reality. Here in Oregon we are in this together—so you say, it is not a question of Portland against the rest of the State. The Bonneville lock bill creates jobs all the way across the State—from the docks of North Portland that I represent, all the way to the wheat fields of eastern Oregon, where our farmers are just very, very anxious to see new markets develop that they cannot tap because we have the old, outdated lock. So I think your educational points are well taken.

Mr. Bright, I like your comments. Rest assured when we can spend that $3 trillion on improving the infrastructure so you can export, increase your capacity to export more, we won't forget what is really important to a lot of small business people is not the numbers with five or seven figure zeros, but the numbers with two or three zeros behind them.

It is like Senator Dirksen used to say in the Senate, "You spend $1 billion here and $1 billion there, and pretty soon it starts to add up to real money."

Mr. Smith, your comments are almost a good way to wrap it up. Andy Ireland has really led the fight to retool what the Export-Import Bank is doing. You have one of the primary advocates on this over in the State of Washington, Don Bonker.

I think a number of other junior Members like myself will help whenever we can. I think we will see the Eximbank turned around. More of the available capital will have to go to small business.

Let me say this has been one of the most enjoyable days I have spent as a Member of Congress. I think the people in this audience need to understand that you are staring at a 3,000-mile plane flight, and I think it is evident of how much you have wanted to explore these issues with us, and your general advocacy for small business. I am very hopeful we will be able to lure you out this way again.

I just want you to know on behalf of the people of Oregon how grateful we are for your support of small business.

Mr. IRELAND. You are very kind. I want to thank you and your staff. You are pretty sure of at least one vote for the Bonneville Dam.

Thank you all very much. We are adjourned.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene, subject to call of the Chair.]

EXPORT PROMOTION AND SMALL BUSINESS

FRIDAY, SEPTEMBER 16, 1983

House of Representatives,
Subcommittee on Export Opportunities
and Special Small Business Problems,
Committee on Small Business,
Dunedin, Fla.

The subcommittee met, pursuant to notice, at 9 a.m., in City Hall, Dunedin, Fla., Hon. Andy Ireland (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN IRELAND

Mr. Ireland. Good morning. I would like to welcome you to the hearing of our Subcommittee on Export Opportunities and Special Small Business Problems of the House of Representatives in Washington. I would like to extend this welcome to all of you.

Today's hearing is the second in a series of field hearings that this subcommittee has been conducting. We were last in Portland, Oreg., in July. We heard some very impressive testimony at that hearing, and I am sure we are going to hear the same kind of testimony here today.

I think it is important to point out that one of the serious difficulties in dealing with the problems of small business is that the small businessman usually never gets an opportunity to be heard. He generally can't come to Washington, which is not the case with those in other lines of business in our economy. I think it is important that we travel around the United States to give the small businessman, regardless of what the subject, an opportunity to have some input, and obviously that is why we are here today.

Ninety-two percent of all American firms sell only in the United States, yet 93 percent of the world's population is outside the United States. Small firms are very often reluctant to explore foreign markets as a source of additional sales. Their reluctance stems from not knowing where to find out which countries want to buy the things that they produce. They fear the mechanics of selling, shipping, and particularly of getting paid in foreign markets. They do not know how to go about getting assistance or consolidating the vast amount of information that is available.

The rewards for investing the time and money into export expansion can be very substantial. The sustained growth of the U.S. economy can be assured, more jobs can be created to offset rising unemployment, and the vital risk-taking part of our economy known as small business can be stimulated.

Federal Government can and must do more if we are to reach our true export potential. More obviously does not mean more in terms of dollars. It must provide better access to export information. It must also promote the competitive viability of small businesses which seek to export with financial and technical assistance, when necessary. Only by doing so can we demonstrate our long-term commitment of rebuilding our economic strength.

It is a great pleasure again for me to be in Dunedin. And before we get started, it is a great pleasure for me to introduce the resident Congressman, a real asset to the Government of the United States, the Honorable Mike Bilirakis.

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BILIRAKIS. Thank you, Congressman Ireland. I thank you also, sir, for allowing us to have this hearing of the Export Opportunities and Special Small Business Problems Subcommittee here in my district, in part an idea of the small business constituency in the Ninth Congressional District.

I look upon it, sir, as I have in many of the hearings that I hope to help hold throughout the country, as bringing Congress to the people, the people who will have an opportunity to see Congress at work and bringing Congress to them, and actually to the grassroots of finding out what the problems are.

I would like to say to the audience a few special words about our Chairman Ireland, who has played a significant leadership role in Congress this year, especially with regard to the Export-Import Bank. I might say he is one of the most courageous Congressmen I have met in the last 8 months. He is a patriot and American first, and a partyman second. It takes an awful lot of courage to do that, and I commend you for it.

Some important shifts in emphasis for the Export-Import Bank have been coming about, largely because of Chairman Ireland's efforts. While the bulk of official U.S. export credit financing assistance has traditionally been directed toward large exporters, Chairman Ireland and I reject the notion that small businesses should be ignored.

Chairman Ireland successfully offered an amendment to the Export-Import bill requiring that a percentage of the bank's loan and loan guarantee authority—6 percent next year and 10 percent the following year—be set aside for small business. Chairman Ireland and I are convinced that the Federal Government can, and in fact should, do more to encourage and assist small business exporters. That is why we are here today.

As you and the rest of the subcommittee members well know, more and more of our businesses are looking for ways to enter foreign markets as a means of increasing their sales. This is particularly true, I feel, in my district. I have had a number of inquiries from businessmen and women who are seeking information on how to find and develop foreign markets, how to sell their goods and services in those markets, and what kinds of assistance they can get.

At a time when this Nation's balance of payments continues to be on the down side, it is vitally important to all of us that we encourage and assist those seeking to export. It will benefit the firms, to be sure, but it will also go a long way toward reducing unemployment and keeping the United States as a major force in the world economy.

Among the witnesses scheduled to appear here today are skilled professionals who understand the export market and can offer assistance. Others are businessmen who will tell us of their problems and difficulties.

To those of you who took the time to attend today's hearing, I urge you to meet those people and talk with them individually. We will be dealing with general topics, but these witnesses can answer your specific questions.

I want to extend my appreciation to those public officials who have taken time from their busy schedules to attend this session.

And, again, Mr. Chairman, I thank you for your assistance in having this subcommittee hearing here.

Mr. IRELAND. Thank you. I appreciate your generous remarks. Efforts like this get this country moving in the right direction.

Let me say at the outset that we have on our list here 12 witnesses. For those that are not among those 12, let me acquaint you with the fact that these people have submitted substantial written testimony, some of which they will give before us; the rest of which I will, with my colleagues' permission, make sure is totally put into the record.

I am going to ask each one of you, as I did in my letter—as we corresponded with each one of you gentlemen who are here today—to try to summarize your statements in 10 or so minutes, knowing full well the details will be put into the record. This will give us a chance for some questions and comments with each of you.

I would say that the others that are here and interested in asking questions—and Congressman Bilirakis has mentioned this, and I think it is a good point—we would like to have time for almost a town meeting on the subject, but I think we are going to be a little squeezed. I would urge that you take Congressman Bilirakis up on his offer to make sure if you want to, that you visit with some of the witnesses or with us as the time permits.

At the same time, if you do have comments to make, please submit them to us in writing after the meeting. We will hold our record open for a considerable amount of time. We would be delighted to have your comments and views in the record. That is what this is all about, it is to find out what is going on in the real world. What you do day to day is the real world, and we would encourage you to do just that.

With all that opening business out of the way, it is a pleasure to call on Mr. Marshall J. Parker, Associate Deputy Administrator, Small Business Administration, a capable gentleman with roots in Florida, a good friend, and also someone we are delighted to have here today.

TESTIMONY OF MARSHALL J. PARKER, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY JOHN L. CAREY, DISTRICT DIRECTOR, MIAMI SBA OFFICE, AND JULIUS O. TOMA, REGIONAL EXPORT DEVELOPMENT SPECIALIST, ATLANTA REGIONAL OFFICE

Mr. PARKER. I want to take this opportunity to express our appreciation for the opportunity to come here and be with you, and the fact that this hearing is brought before the people, particularly in this area where the progress in the future is indeed going to be outstanding.

Also, I would like to express the appreciation of the Administrator, and SBA as well, for the outstanding leadership that you, Mr. Chairman, have given in the U.S. House of Representatives to small business. We appreciate it very much.

Appearing with me today is, on my left, John Carey, director of the Small Business Administration district office in Miami, a longtime employee and one of our top district directors in the country; on my right, Julius Toma, who is the regional export development specialist for the Southeastern region of the United States, region 4, comprising eight Southeastern States.

I have provided the committee, per your request, with a complete prepared statement. I would like to summarize some of the points that are in that statement, Mr. Chairman.

The international trade program for SBA was established under Public Law 96-481. I would like to report that we think this program is firmly established within our agency. Administrator Jim Sanders has been in place now for some 15 months. I have been connected with the program for a year. We feel that we have the outline and implementation for an excellent program.

The legislation that empowers this effort establishes within SBA a revolving line of credit program—and I want to go into a little more detail on that—for pre-export financing as well as developing foreign markets. After drafting the necessary rules and regulations, the export revolving line of credit was tested in five major cities before being put into effect nationwide.

In addition to direct contacts with bankers and the business community, we have begun a concentrated outreach effort. Letters were sent to all of the banks in the country telling them about this program and asking their cooperation. And, incidentally, we have just completed another mailing, Mr. Chairman, to 29,000 banks and branch banks across the country, from the Administrator, asking them again to please work with us on this revolving line of credit for small business. We hope we will have firm results from that.

In the first 11 months of fiscal year 1983, the agency made 21 of these loans for a total of almost $6 million; in addition to other regular business loans, totaling some $6 million to small business exporters. In region 4, we have had four exporters receiving export revolving credit line loans to the tune of $1.3 million.

We are working with the Eximbank of the United States to coordinate our export revolving line of credit with their loan program authorized by the Export Trading Company Act. It is our joint intention at this time to minimize and streamline the application process whereby small business will receive our respective agency guarantees. In other words, a cooperative effort so that we can make it a one-stop situation for perhaps up to $1 million or $1½ million loans for small businesses. We are engaged at this point now at the point of reaching an agreement between the two agencies.

We have promoted our export line of credit program through export training programs and in our counseling with small business. In addition, we have featured this assistance in many periodicals throughout the country in order to make the small business community aware of this assistance. Some of the publications are Business America, Nation's Business, and many others. We have also had individual meetings with local bankers and banking associations. We are using their publications at the present time to inform the banks, in addition to our own mailings, in order to get this program going.

In region 4, SBA's financial assistance programs for exporters, especially the revolving line of credit, continues to be promoted through bank newsletters, distributed by individual district offices—John, I believe in your case—and by news releases published in our local papers. The regional export development specialist, Mr. Toma, and district directors have all made presentations before exporters and bankers concerning the export line of credit.

We emphasize this outreach because it is an important part of our program for small business. In order to conduct this aggressive outreach to small business, we are now starting a media promotion campaign. In October, we are going to hit 15 cities with a pilot program, Mr. Chairman, with an extensive media and promotional campaign to reach out to the small business community. We hope to create an awareness of exporting to determine potential exporters and inspire them to contact our offices. In turn we will do individual counseling through our own resources and refer them to other agencies when they might need additional assistance.

We have enlisted in this effort the cooperation of local trade associations, the Department of Commerce, the Chamber of Commerce, and the port authorities to move right into this campaign this fall with us. We think it will help us identify perhaps several hundred new firms which will be exporting in the future. If it works, we will take it nationwide. This is an important promotion effort for us.

Although not directly related to the export promotion campaign, the Small Business Administration is undertaking other initiatives. One which you will hear about this morning, I am sure, from Mr. Williams with the Overseas Private Investment Corporation, is called operation opportunity. It is one that SBA is cosponsoring with OPIC by providing money, helping plan the program, and staffing it when it hits the 50 cities in November. I am sure he will tell you about this particular program. We think it is one that will give us additional leverage. We will do it in teleconference style and hit 50 cities simultaneously through Cabinet Secretaries as well as the Administrator of SBA and others.

In addition to this, we are also involved with AID, the Agency for International Development. AID and SBA are cooperating with a private sector corporation, the Caribbean Central American Action, to sponsor a week-long conference in Miami from November 28 through December 2, to bring together U.S. small business exporters, importers, and investors, with representatives of government and private sector organizations in the Caribbean area, to discuss potential joint business opportunities. You might say this is a part of the President's Caribbean Basin Initiative program.

As far as continuing with our efforts regarding outreach, we are sponsoring and cosponsoring training courses and seminars on exporting. These are often in cooperation with the State departments of commerce, U.S. Department of Commerce, universities, chambers of commerce, and local trade organizations.

I would like to report to you that in the first nine months of 1983, we sponsored or cosponsored—and this was active participation, such as marketing these programs, planning the programs, furnishing speakers, and things of that nature—375 such programs with over 20,000 in attendance. In region 4 SBA has sponsored or cosponsored so far this year 49 export training seminars and workshops with a total attendance of approximately 1,900 small businesses.

We also provide international trade counseling to the small business community through SCORE—our Service Corps of Retired Executives. And I would like to say at this point that SCORE has done a highly commendable job. They have been of immense help to the Small Business Administration with all of our programs throughout the Nation. We couldn't do without them.

Along with SCORE, we have the Small Business Institute program, the Small Business Development Centers in universities, and also through the Small Business Administration-Federal Bar Association agreement a first-time, free legal advice is available to potential exporters. This counseling ranges from general information on exporting, to technical and legal assistance, to indepth export marketing plans provided by some of our small business development centers.

The number of small business clients counseled on international trade matters for the first 9 months of this year was 4,532. I think it is pertinent to mention that over 20 percent of these received more than 12 hours of direct counseling, showing the willingness of our Agency to provide some meaningful type of counseling.

As I said, a large part of this comes from SCORE. In region 4, I believe there are over 1,800 SCORE members with roughly 40 expert volunteers with many hundreds of years of experience in international trade, and we are referring these small businesses to them.

The small business development centers in Georgia and Alabama in region 4 have international trade centers which provide step-by-step counseling, including research data and export development plans. During the first 9 months of this year, these 2 international trade centers have provided over 5,200 hours of export counseling to over 300 small firms.

Florida's Small Business Development Center, FSBDC, is currently considering starting such an international trade center.

The legislation which established the Office of International Trade, Public Law 96-481, also provided that the SBA should encourage more trade show and trade mission participation by the small business community, in cooperation with the Department of Commerce. We have agreements with the U.S. Department of Commerce and the U.S. Department of Agriculture. And under these, we have financially assisted small firms to exhibit at such events overseas by paying part of their participation fees.

Under these agreements, this year the SBA paid the participation fee for some small businesses at the national food and agriculture exhibition in Atlanta. We had several small businesses from region 4 participating. And one of the firms was Garcia Canning Co. of Tampa, a canner of specialty foods.

We also covered—this may be of interest to those who have done any fishing—the participation fee in the World Food Fair in Paris for the Catfish Farmers of America, based primarily in Jackson, Miss. This organization subsequently has become one of the first in region 4 to apply for certification by the Department of Commerce as an export trading company. We are actively working with this group at the present time and discussing with them various marketing possibilities that would have overseas benefits.

Almost all of the firms we dealt with in this funding program found the experience an excellent opportunity to conduct their own market research on the spot and to evaluate their competition. Some found they were not ready, quite frankly, for the demands of the marketplace; while others signed up agents and distributors. As a result of those participating in one event, two new-to-market companies each shipped 80,000 dollars' worth of product within the first 3 months after these shows.

In November, in cooperation with the U.S. Agency for International Development, we will be helping to select and send 15 small firms to an international exhibit in Manila, which will deal primarily with food processing. We hope the participants will find the Far Eastern market even more receptive to smaller firms than the European marketplace.

Public Law 96-481 also called for, Mr. Chairman, full-time export development specialists in each of our regional offices, and a designated international trade specialist in each district office. We are in the process at the present time of filling that complement.

As far as the number of regional export development specialists is concerned, we have all onboard except in two regions. We are advertising and recruiting for those at the present time. We have been, quite frankly, pleased with the quality and expertise of those who have filled the previous vacancies.

Julius Toma, who is with me today, recently has come aboard in region 4. He has had much experience in international banking both in New York and Memphis. He is going to make an excellent export development specialist.

As the law requires, we have conducted training programs for these regional export development specialists and district office personnel. This is an ongoing situation to continue to train these individuals.

In each district office of region 4, as in most other SBA offices across the country, there are two people designated in each district office to assist and handle the SBA outreach as it relates to export. This would be one person from the finance side of the district office, as well as one person designated specifically and trained to work with exporters in the management assistance area.

A total of 19 SBA employees are involved in providing export assistance in region 4, with the exception of the regional export development specialist. All of these do have some additional duties and work under the direction of the district director. These responsibilities are in addition to those I mentioned.

In conclusion, Mr. Chairman, I would like to say that we do feel the international trade program is in place and is working and will be working more successfully in the future. We are constantly striving to make it work better. And we welcome the recommendations and suggestions from you as to how we can do it.

We know that our goals and our needs as far as the trade deficit and improvement of our position in the world market is the same as yours. And we know that we haven't gotten the bulk of the small businesses involved that should be, that of the 20,000 potential exporters. We are going to try everything, and if one thing doesn't work we are going to try something else.

Thank you.

[Mr. Parker's prepared statement follows:]

PREPARED STATEMENT OF MARSHALL J. PARKER, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, SMALL BUSINESS ADMINISTRATION

Mr. Chairman and members of the subcommittee: I appreciate the opportunity to appear before this subcommittee today to discuss the Small Business Administration's international trade program for which as the Associate Deputy Administrator for Special Programs, I am responsible. Appearing with me today is John L. Carey, Director of the Miami SBA District Office and Julius O. Toma, Regional Export Development Specialist in our Atlanta Regional Office which includes the Southeast region of the United States.

SBA's Office of International Trade was established under the provisions of Public Law 96-481 commonly referred to as the "Small Business Export Expansion Act of 1980." Since that time, the Agency has undertaken to implement the intent of Congress as outlined in that legislation and within the context of other legislation enacted by the Congress which affect the Agency.

Today I would like to report that this program is firmly established within our Agency. The Administrator and SBA are committed to increasing small business exports. I would like to focus my comments first on our national program and then discuss our program in region IV and Florida.

EXPORT REVOLVING LINE OF CREDIT PROGRAM

The legislation amended the Small Business Act to empower the Agency to make revolving line of credit loans to be used to develop foreign markets and/or for pre-export financing.

After drafting the necessary rules and regulations and receiving public comment on them, this export revolving line of credit program was tested in five major cities for six months before being put into effect nationwide in July of 1982. In addition to direct contacts with bankers and the business community an initial letter was sent by the administrator to 15,000 banks participating in SBA lending programs informing them of the new program. Another letter was sent by the Administrator earlier this month reemphasizing our desire to participate with them in making ERLC loans to small business exporters.

For the first eleven months of fiscal year 1983, the Agency has made 21 of these loans for a total of $5,770,000 which is in addition to 23 other loans to small exporters made totaling $6,225,000. We are encouraged as we begin to see an increasing awareness of, and interest in, this finance program and expect to see many more export revolving line of credit loans in the months ahead.

We are working with the Export-Import Bank of the United States to coordinate our export revolving line of credit program with its loans program authorized by the Export Trading Company Act. It is our joint intention to minimize and streamline the application process by which small exporters will receive our respective Agency guarantees.

We have actively promoted our ERLC loan program through export training programs and in our counseling with small business. It has been featured in many periodicals including Business America, Nation's Business and American Banking Association magazines as well as in other journals and media articles.

In addition it has been discussed in individual meetings with local bankers and banking associations. During the coming year, we have scheduled additional training for our loan officers and lenders in our SBA export financing programs.

EXPORT AWARENESS AND PROMOTION

The Office of International Trade, as outlined in the legislation, was established to provide small businesses with access to current and complete export information.

This we have done by ensuring that each of our offices has directories of, and information on, private and public organizations that are involved in international trade. We do not intend to duplicate what the U.S. Department of Commerce provides, but we are prepared to offer initial assistance and direction to small firms which have an interest in exporting.

SPECIAL PILOT EXPORT CAMPAIGN

In order to conduct an aggressive outreach to small business, between mid October and the end of November of this year, in 15 cities around the country (Miami and Atlanta are the two cities in region IV), the SBA will be conducting a four week intensive media awareness and promotional campaign to reach out to the small business community to create interest in and answer questions about, exporting. As a part of this campaign there will be television, radio, and newspaper ads as well as a direct mail campaign. Firms will be encouraged to call a special local SBA number for answers to questions they have about exporting. We have enlisted the cooperation of the local trade associations, Department of Commerce Offices, chambers of commerce, port authorities and other private and public organizations to assist in responding to the requests of these small businesses. This is a major effort to identify many of those 20,000 firms, that everyone talks about, which have export potential but are not currently exporting. We want them to know that they can export and that SBA and many other local groups are willing to help them get started.

If this media campaign proves as successful as we think it will be, we will institute it on a nationwide basis early next year.

EXPORT TRAINING

In addition to this major campaign, SBA continues to sponsor and co-sponsor training courses and seminars on exporting. These are often put on in cooperation with the U.S. or State Department of Commerce, universities, chambers of commerce and local trade organizations. In the first nine months of fiscal year 1983 we sponsored or cosponsored 375 such programs with 20,049 people in attendance.

INTERNATIONAL TRADE COUNSELING

We also provide international trade counseling to the small business community through SCORE (Service Corps of Retired Executives), the SBI (Small Business Institute) program, the SBDC (Small Business Development Center) program and under the SBA-Federal Bar Association agreement. This counseling can range from general information on exporting to technical and legal assistance to in-depth export marketing plans provided by some of our SBDC's. The number of small business clients counseled on international trade matters for the first nine months of fiscal year 1983 was 4,001. Twenty percent of these received more than 12 hours of counseling, showing the willingness of our Agency to provide ongoing assistance to small business owners who are serious about exporting.

TRADE SHOW PARTICIPATION

The legislation also provided that the SBA should encourage more trade show and trade mission participation by the small business community, in cooperation with the Department of Commerce. Under agreements with the Department of Commerce and the U.S. Department of Agriculture, we have financially assisted small firms to exhibit at such events by paying their participation fees.

And, of course, we "encourage" businesses to exhibit abroad, even without our financial help, since the best way to sell overseas is often face-to-face. During fiscal year 1983 we have financed the participation fees of 28 firms for a total of $28,440. The results of this program have been varied but in some cases very rewarding.

Almost all of the firms found the experience an excellent opportunity to conduct their own market research on the spot and to evaluate their competition. Some found that they were not ready for the demands of the marketplace, while others signed up agents and distributors. As a result of participating in one event, two new-to-market companies each shipped $80,000 worth of product within three months of the show.

In November, in cooperation with the U.S. Agency for International Development, we will be helping to send 15 small firms to an international exhibition in Manila. We hope the participants will find the Far Eastern market there even more receptive to smaller firms than the European marketplace.

REGIONAL EXPORT DEVELOPMENT SPECIALISTS

Lastly, the legislation calls for full time export development specialists in each or our regional offices and a designated international trade specialist in each district office. We are in the process of filling two vacancies at the regional level—one in Kansas City and one in New York. These vacancies occurred after the previous specialists took other positions outside SBA. We have been pleased with the quality of applicants and the selections that we have made previous vacancies. Julius Toma, who is with me today, recently filled the export development specialist position in the Atlanta Regional Office, after eight years of international banking experience, working in banks in both New York and Memphis. At the district office level, each office now has a designated individual who is responsible for the international trade program in that district.

As the law required, we have conducted training programs for our regional export development specialists and district office personnel involved in our international trade program.

In the late summer and early fall of 1980 we conducted a 1 week export training program for 129 SBA regional and district office personnel as well as SCORE volunteers. Each year we have conducted at least one additional week of training and discussion for our regional SBA and SCORE export specialists. During these meetings, Government and private sector personnel update our people on new program developments. They also receive additional local export training.

The newly appointed regional export development specialists have been to Washington to receive special orientations and training. Some have traveled to learn first hand what is being done in other regions.

In December the regional export development specialists will attend a two-day training program at the Export-Import Bank in Washington.

I would now like to discuss our international trade activity in region IV and Florida, in particular, as well as to highlight other initiatives we are undertaking.

REGION IV INTERNATIONAL TRADE PROGRAM

The basic priorities and policies for implementing the Export Expansion Act of 1980 are established by the Small Business Administration's Office of International Trade in Washington, D.C. Each of SBA's ten regional offices has a regional export development specialist to carry out the SBA's export expansion activities as mandated in the act, which are to identify, inform, motivate, and finance current and potential small business exporters. These regional export development specialists work through their various district offices with their district directors, management assistance officers, and loan officers, who have specifically designated international trade responsibilities.

In region IV, the regional export development specialist is Julius Toma, who has held this position since late February of this year. As I pointed out earlier, he has had an extensive background in exporting. He reports to Regional Administrator, Miller Widemire, and is responsible for coordinating SBA's export expansion efforts in the nine district offices which comprise the SBA's eight State Southeastern Region: Alabama, Mississippi, Georgia, Tennessee, Kentucky, North Carolina, South Carolina, and Florida.

Due to its size and geography Florida is divided into two districts: (1) The Miami District Office covers the twenty-four counties in south and central Florida up to and including Pasco, Polk, Osceola, and Brevard Counties: (2) The Jacksonville District Office covers the remaining 42 counties in northern and western Florida.

Region IV has been active in export promotion efforts since 1980 when Public Law 96-481 was enacted, for it was then that each district office in the region assigned one person from its management assistance staff the responsibility of carrying out the provisions of this legislation.

In November of 1980, the special week-long export training program I mentioned earlier was conducted in Atlanta for each person assigned international trade responsibilities. In addition to this special training, each district office has a packaged export training program prepared by SBA's Office of International Trade which includes films and workbooks to be used in training other SBA personnel, including SCORE representatives, in export marketing, shipping, and finance. District directors further appointed an additional person in each district office's financial division as that district's export loan officer.

PERSONNEL

In each district office of region IV there are two people designated to handle SBA's outreach activity as it relates to exporting. The finance officer has been SBA's contact with the banking community regarding the use of SBA's loan guaranty programs as they relate to exporting, and the management assistance officer has been responsible for providing export training, counseling, and referral of small businesses interested in exporting.

A total of nineteen SBA employees are involved in providing export assistance to small businesses in region IV. With the exception of the regional export development specialist, all of these individuals are in the district offices and also have other duties to perform as assigned by the district director in accordance with his particular district's priority plan.

EXPORT COUNSELING AND TRAINING

As a result of the workload from various programs for which SBA is responsible, a large part of the export counseling and training is provided by SCORE (the Service Corps of Retired Executives). In region IV, with approximately 1800 SCORE members, there are over forty volunteers with international trade backgrounds to whom small businesses are referred for export counseling. Many of the SBA-funded small business development centers at various State universities provide export training seminars, workshops, and overseas market research for small business clients. The small business development centers in Georgia and Alabama both have international trade centers which provide step-by-step counseling including target foreign market research data and export development plans. During the first nine months of fiscal year 1983, these two ITC's have provided over 5,200 hours of export counseling to over 300 small firms. Florida's Small Business Development Center System is currently also considering such an international trade center.

To summarize, the principal SBA resources used in providing export counseling and arranging international trade training seminars and conferences are SBA management assistance officers, SCORE volunteers, and small business development centers. To date this fiscal year, an additional 450 small businesses have received export counseling in this manner in region IV, with other 250 such cases arising from the Miami district alone, where there are twelve SCORE volunteers with strong international trade backgrounds.

SBA also works in cooperation with ITA, the International Trade Administration of the U.S. Department of Commerce, co-sponsoring export training seminars and referring interested small businesses to their international trade specialists for assistance in locating foreign markets for their products. Other export assistance resources to whom SBA refers small businesses include state departments of commerce and economic development, U.S. and State departments of agriculture, chambers of commerce, international banks, and export management companies. Each district office maintains a listing of such resources for appropriate referrals. In region IV SBA has sponsored or co-sponsored so far this year over 49 export training seminars and workshops with a total attendance of approximately 1900 interested small businesses.

TRADE SHOWS

Under a cooperative agreement with the Foreign Agricultural Service of the U.S. Department of Agriculture, the SBA this year paid the participation fees in the National Food and Agriculture Exposition in Atlanta, Georgia for three small businesses from region IV, one of which was Gracia Canning Company of Tampa, Florida, a canner of Hispanic specialty foods.

Under a similar cooperative agreement with NOAA, the National Oceanic and Atmospheric Administration, U.S. Department of Commerce, SBA covered the participation fee in the November 1982 Sial World Food Fair in Paris for the Catfish Farmers of America Association of Jackson, Mississippi. This organization subsequently became one of the first from region IV to apply for certification by the Department of Commerce as an export trading company. SBA also sponsored another firm from region IV, Ocean Industries Development Corporation of Marietta, Georgia, in the U.S. Seafood Sales Exhibit in London during May of this year.

EXPORT FINANCING

SBA's financing assistance programs for exporters, especially the export revolving line of credit loan guarantee program, continue to be promoted through bank newsletters distributed by each district office as well as by news releases published in local newspapers. The regional export development specialist and the district directors in region IV have all made presentation before groups of exporters and bankers concerning the export revolving line of credit. Although this particular loan guarantee program has been available only since July of 1982, region IV now has guaranteed five such lines of credit representing a total of $1,300,000 in funds made available to exporters. In addition, four term loans supporting small business exporters totaling $570,750 have also been guaranteed by SBA this fiscal year. In fact, two of these term loans were made to small business exporters in the Miami area.

EXPORT TRAINING FOR SBA PERSONNEL

In an effort to broaden SBA's outreach activities, each district office in region IV is currently undergoing a pilot business assistance training program. As part of this training program, all district directors and their supervisory staffs, as well as management assistance and loan officers are being given training by the regional export development specialist to heighten awareness within all SBA employees of the need for SBA's continued commitment to the export expansion effort, especially in the area of pre-export financing for small businesses. This new business assistance approach attempts to integrate fully all SBA's regular and special emphasis programs, such as international trade, into the overall SBA outreach effort of every employee.

SPECIAL EXPORT PROMOTION ACTIVITIES

The small business administration is also currently preparing for an export promotion campaign in 15 cities throughout the Nation. Miami and Atlanta will be the two metropolitan areas participating in region IV. A media and direct mail solicitation campaign will be conducted from mid October through late November in an effort to identify several hundred serious, new, small business prospects for exporting and to direct them to sources of personalized assistance available locally from government agencies and the private sector. SBA also plans follow-up counseling, training, and other assistance to those prospects with the greatest potential to become exporters.

Although not directly related to the export promotion campaign, the Small Business Administration is cooperating with the Overseas Private Investment Corporation and various other U.S. Government agencies in sponsoring a live two-hour teleconference—"Operation: Opportunity," to inform U.S. businesses of the wide range of Government services available to help them develop or broaden business opportunities overseas. It is to originate at noon on November 16, 1983, from the Washington Headquarters of the U.S. Chamber of Commerce and will be received in over 50 different locations including the four Florida cities of Tampa, Miami, Palm Beach and Jacksonville.

SBA and the Agency for International Development are also cooperating with a private sector organization "Caribbean/Central America Action" to sponsor a week-long conference in Miami from November 28 through December 2, 1983, to bring together U.S. small business exporters, importers, and investors with representatives of government and private sector organizations in the Caribbean area to discuss potential joint business opportunities. This event is part of the President's Caribbean Basin Initiatives program.

In conclusion, the international trade program at SBA is in place and is working. We're constantly striving to make it work better and would welcome your suggestions in that direction. Our goal is the same as this subcommittee's: To stimulate more small business exports. We intend to succeed in meeting that challenge. I want to thank you for your support in this effort.

Mr. **Ireland**. Thank you, Mr. Parker.

Let me remind you that the bill the gentleman refers to under the law under which he works, passed in 1980, was really a first attempt to put the Small Business Administration into helping the export area. The law, although certainly not perfect, is at least a stab at getting started.

Of course, what you are talking about here is the Small Business Administration is implementing the law, as passed. And the purpose of our conversation is, how is it doing? And that comes under two headings: How is SBA doing with what they have been asked to do under that law? As you know, from my point of view, the wheels are in motion, and I am pleased to see the action that has now come about.

The other half of that question is, we may have done the best we could in passing the law, but SBA may be doing the very best possible in implementing that law. Maybe we did some of the wrong things. Maybe we left out some things.

Would you comment as to whether, as far as you know, 21 loans at $6 million is, compared to the need, a good thing or bad thing? Should there be more? Is there something about the way we are set up to handle this that could be improved? Is the effort to coordinate with other agencies working, or should it work better? How should the law be different than what we started out with?

With the admitted goal of just getting started, how should that goal be changed? And where have we succeeded? Where have we failed?

Mr. **Parker**. First of all, I totally agree that that's an extremely small number of loans for a program this important. We are not satisfied with it at all. It is barely a start.

We have operated under some difficulties, not with the law itself, but the fact the Small Business Administration had not been in the export business. So, we've had a difficult time in getting the agency to be considered as a resource for small business people who are interested in international trade along with Commerce, AID, and so forth. This has been one of the difficulties that we've had.

On the positive side, however, we've made a lot of efforts to publicize our revolving line of credit program to the banks and the lending community.

Going back again now, we are starting an active outreach on the district level with the district personnel calling on the banks, showing them how this program can work.

I don't think the law itself is at fault. I don't think the SBA has been late in getting started. I think we are underway now with it.

Mr. Toma might want to comment. He is in this particular line.

Mr. **Toma**. I think the export revolving line of credit is an excellent program, and I greatly support it. We need to do a lot more than we have to promote it.

There are also other difficulties. We haven't been able to offer this program except for the last year. Standard operating procedures, after the trial period had to be revised and so forth. The actual program we have now has only been available for the last year. A lot of people know about it. Most of the bankers do know—most of the international bankers are aware of it. And it's been difficult to implement it within their own banks, due to the coordination needed within their own bank between the metropolitan division and the international division. But they do see the value of it.

Here in region 4 we've got four loans on the books now that are operating as it is intended to be used. And I think we are going to see a lot more of them in the future because this line of credit is being discussed at every export seminar, and not only by myself but other bankers who know about it.

Mr. IRELAND. What about the promotional aspects in promoting the awareness and the opportunities? I'm overjoyed that you began to get this program going with the 15 markets. But up to now, what is your evaluation of that kind of thing?

Mr. PARKER. I have to be frank. I admit I think we've been derelict in getting the promotion that we should have. I think the plans we have on the way now will give us a successful promotion. We've enlisted outside help and so forth to prepare media packages, a real campaign if you will, to bring this awareness about.

I also want to mention the fact that a lot of these initiatives are just beginning to fall into place.

Mr. BILIRAKIS. Has the Tampa office been involved in initiating any revolving line of credit loans?

Mr. PARKER. None.

Mr. BILIRAKIS. Has there been any requests?

Mr. TOMA. We've determined in every office we've gotten an average of a couple of dozen requests for it.

Since it is a guaranteed program, it operates through the banks. So, we explain to them what the program is about and tell them the banks that have international departments that could easily handle it because they do know about the program. Most of the inquiries do come from the general public as opposed to the banks.

Mr. BILIRAKIS. Are we saying there are none here in Tampa because possible borrowers just didn't qualify? Or because there aren't enough banks that have adequate expertise in this area?

Mr. TOMA. I think we have enough banks with adequate expertise.

Mr. PARKER. I would like Mr. Carey, if he would, Mr. Bilirakis, to comment. Tampa, of course, is in his area.

Mr. CAREY. I don't have a precise answer for that. I can only speculate. I think it's in dealing with the banks in all of our lending programs, and financial assistance programs. We come out from time to time with new programs, and you introduce them to the banks and the bankers. And they are initially aware of it and unless they have an opportunity to use that particular program, it kind of goes in the back of their minds. You have to continually remind them that it's there; that it is available; and it's kind of an opportune thing. There has to be a customer who is seeking the kind of assistance that the program gives. And I think we have to continue to stress this program and other SBA programs with the banks in all of our contacts.

We have continuing ongoing personal contacts by our financial specialists with the banks talking about overall financial assistance and how we can work with the banks to service their customers and attract new customers, and we describe all the new programs that we have. Of course, lately we're emphasizing the export revolving line of credit because we think it is going to be able to open up some new markets for a small business.

But as far as here in Tampa, there are people in the office who are very familiar with the program. And they discuss it on a 1-to-1 basis with the many banks that they have contacts with.

We've had a couple of seminars with the banks to discuss financial assistance programs. In the spring of this year we held a seminar in Bradenton and one in this Clearwater area where we had groups of bankers in from different banks and discussed our financial assistance programs. The export revolving line of credit was discussed at that point and explained to them. It is just a case of the word getting out, and the opportunity being right so that the banker who uses it becomes familiar with it.

Of course, I'm sure you know that the change in bank personnel makes the education of bank personnel in our programs a really ongoing and repeated thing. They move around from this place to that place, and this position to that position, and it is a key to retraining.

Mr. BILIRAKIS. Thank you, sir.

Mr. IRELAND. Mr. Parker has alluded to my concern of the Small Business Administration getting started on these programs.

I would like to take this opportunity to put into the record that I am pleased, after having many harsh words with the SBA about getting it started, that this progress is being made. It's a whole lot more fun to work with carrots than it is with sticks, and I think we are all working together.

I would like to have the record show that across this Nation this program within SBA is getting the attention that it deserves.

I am going to leave you with a thought that it's not only the implementation, but it could be that we're being asked to do it well and we ought to work together to put that program into action.

I am sure from the others here today we are going to get lots of good ideas of what we can do to work together to do that.

Again, gentlemen, I thank you for your testimony.

Mr. BILIRAKIS. Just very quickly, to welcome not only Mr. Parker but also Mr. Toma and Mr. Carey, along with other SBA people who were very, very instrumental and very successful in a small business conference that we held in Clearwater in late June.

Mr. Toma was the man who was on export opportunities, and they did a great job and it was a very successful conference. We received tremendous laudits on that, and that was due to people like yourselves and a great score of people, some of whom are in the audience. You are also welcome.

Mr. Chairman, just one final thing on this "Operation Opportunity." Mr. Parker, of course, his testimony was lengthy and it was going to be touched upon, but it is just significant that the small businessman in the area—and I ask all of you in the audience to pass the word around—put emphasis on this. It's intended to inform the businessmen of the wide range of the Government services available to help them develop and broaden the business opportunities available overseas.

And, as I understand it, it is a program originating at noon on November 16, and it is from the Washington Headquarters of the U.S. Chamber of Commerce. Is that correct?

Mr. **Parker**. Yes.

Mr. **Bilirakis**. OK. And the people who care to attend that program in person, they must register a $125 fee?

Mr. **Parker**. Yes.

Mr. **Bilirakis**. That includes an awful lot of material and they will be able to answer any questions. But for the businessman throughout America who does not attend, it is going to be on video. In what form is that going to come in?

Mr. **Ireland**. We are going to give a substantial description of that in a few minutes. Your point is well-made.

Mr. **Bilirakis**. I want to make emphasis on that.

Mr. **Parker**. Mr. Chairman, I appreciate your remarks and Mr. Bilirakis', and we always welcome your leadership and your admonishments as well, sir.

Mr. **Ireland**. Thank you, gentlemen.

This is Mr. S. Linn Williams, vice president and general counsel for Overseas Private Investment Corporation.

Mr. Williams.

TESTIMONY OF S. LINN WILLIAMS, VICE PRESIDENT AND GENERAL COUNSEL, OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. **Williams**. Thank you very much, Mr. Chairman.

Mr. **Ireland**. I know my good friend Skip sent some testimony by you and we'll see that that gets into the record. Now, if you will just summarize some of the good work you are doing.

Let me say at the outset for those of you who don't know, the Overseas Private Investment Corporation is one of those remarkable things having to do with the Government. It was what—$50 million that it returned to the Treasury not too long ago? I know you will have a chance to say a few words about this but modesty will prevent you from calling attention to the fact that for our Government—for small business in particular—your organization has done a very fine job.

Mr. **Williams**. Thank you very much, Mr. Chairman. It's the first time my organization has been accused of modesty.

Mr. **Ireland**. Especially with Skip.

Mr. **Williams**. I do want to convey the personal regards to both you, Mr. Chairman, and Representative Bilirakis from Skip Nalen, who is OPIC's president. He is a Floridian by transplant. And he wanted very much to be here himself but could not. However, we would like to place his written remarks in the record.

A word about what OPIC does. For those of you here in the audience who do not know, the purpose of the Overseas Private Investment Corporation is to encourage economic development in developing countries by promoting private American investment—the key words are private, American, investment.

We do this by means of political risk insurance in three areas: expropriation, inconvertibility of local currency, and elements of political violence—war, revolution, insurrection, civil strike—by means of a financing program which includes direct loans and loan guarantees, and by means of investment encouragement programs which include, among other things, investment missions and feasibility studies.

What has OPIC done over the past 3 years? As the chairman indicated, it has been a very good time for OPIC despite some difficult times in the American economy, and for businesses that are thinking about investing overseas. And without mentioning particular numbers, I can tell you that we have set records in every economic category over the last 3 years.

Another record is going to be set this year. Although the fiscal year is not yet over, we shall write a record amount of insurance once again, around $3.3 billion, which is three times what was done in 1980.

OPIC is a self-sustaining Government agency—that is, we do not cost the taxpayers anything. To the contrary, we earned last year $83.5 million in profits made from premiums, loans, and loan guarantee fees, and we expect to do the same this year.

Now, why should we talk about investments in a committee proceeding on trade? I think the answer is evident to those on the committee who are familiar with the problem. The answer is that investment increases trade and that, to a great extent, particularly in developing countries, you can't trade unless you invest. The developing countries themselves, by law and by policy, often insist that investment precede trade. It's a very important part of trading to an American company.

Why talk about developing countries? The answer to that is the same. It is very important to this country that we continue to maintain and increase our country's trade with developing countries.

Most people don't know it, but we now trade more with developing countries, not including the oil-producing countries, than we do with Eastern Europe, Western Europe, and China combined. That is an extremely important part of American trade and one that is going to become more important in the future. This is the growth area for American trade.

I can also say these are very profitable investments. On the average, the profits for an investment in a developing country are twice what the average is for the profits in an industrialized country. The risks are higher, and the rewards are higher

Now, why should we talk about small business when we talk about investments in developing countries? The answer to that is very much the same—small businesses are extremely important, not only to the American economy, as the committee pointed out and as Mr. Parker has pointed out, but to the Overseas Private Investment Corporation.

Sixty-five percent of our clients last year were small businesses. That was 7 percent higher than the previous year. And this is not an easy time for small businesses to invest abroad. So we consider that an indication of the great importance that we place on small businesses.

We have also learned—some of us before we got to OPIC, and certainly after we got to OPIC—that small businesses can be extremely effective in investing in developing countries.

Small businesses are used to operating in small economies. Big businesses can bump their elbows on smaller economies. A small business can do a great deal of good with a relatively modest amount of money and do itself a great favor in the investment and trade that it does in a developing country.

There are real opportunities out there, Mr. Chairman, for investments in developing countries. There are risks, but there are rewards. And that's what small business in this country is all about.

It is also true that there is a real receptivity to foreign investment in developing countries of a kind that hasn't been seen in more than two decades.

But small businesses have special problems in developing countries. They lack information. They lack experience, and they are facing the reluctance of many commercial lenders in these times to assist an otherwise viable commercial project because of unknown risks.

When you combine small business and a small economy, the risks are sometimes too great for many commercial lenders.

So OPIC has special programs that we have made available to small businesses, which are written about in the testimony—a few that I would like to mention specifically.

We've had an aggressive marketing program, generated by the president of OPIC particularly from his own business background, and the focus of that marketing program has been to reach out to the small business community. If people don't know what you can do, then you are not doing your job as well as you should. That marketing effort has been very substantial. I know the committee is aware of it, and it has been directed principally at smaller American businesses.

Another thing we have done that is about to come onstream is something we call the Opportunity Bank. This is a collection of projects in developing countries that we can make available to small businesses, an especially useful tool for a small business that might be thinking about a country but doesn't know exactly what to look for.

We have a small business program for small contractors where, because the small contractor is quite often highly leveraged, we are prepared to give a guarantee against all commercial and political risks, for 75 percent of the letters of credit that are put out to help small business contractors do projects in developing countries.

We have $1.25 million for feasibility studies, almost all of which—98 percent—goes to small American businesses. Now these feasibility studies are ones that require hands-on operation by the small business. We require that the small business put up 40 percent of the cost of the feasibility study. We require that the small business participate in the study. We don't want to pay just for consultants. And once the project becomes operational, that feasibility study is then converted into a loan, payable over a long term and at reasonable terms, so that once again it's an opportunity for the small business to participate in the operation of a commercial project.

One of the most important programs that we have, Mr. Chairman, is the program for direct loans. All of these loans go to small businesses. They go to commercial projects involving reasonable equity contributions by the small business person himself or herself.

In fiscal year 1982 we had authority from the Congress to allocate $10 million to that direct fund. That $10 million that we loaned in fiscal year 1982 generated another $12 million in purely local capital, that is, developing country capital, that would not have otherwise gone into place.

We asked for $15 million in fiscal year 1983. Mr. Chairman, I know you supported that request. The President supported that request. The Senate approved that request. Unfortunately, at the last minute, the Appropriations Committee of the House did not approve that request, a decision which we very much regret and which we would very much like to remedy for fiscal year 1984. Once again, all those loan funds go to commercial projects sponsored by small businesses.

Some examples of small businesses we have helped include some Florida companies. In feasibility studies, we have helped a company called World Industries, which did a feasibility study to investigate the viability of establishing a plastic bottle production plant in Egypt. It has concluded that the production is viable and that it will proceed with an investment.

In the last 2 months we approved a second loan for a Florida company called FWH which is producing ornamental plants in Costa Rica and Jamaica for sale entirely to the European market. The first loan we made to that company was extremely successful. We are looking forward to other loans that can be equally successful. And those were only two of the Florida success stories.

A few other things that we've been able to do in the last few years, Mr. Chairman, indicate to us that you don't really need to throw money at problems like this, because American small business is resilient enough and capable enough that if you have good programs, and you have viable commercial projects, they will come through for you.

You need to get the small businesses to participate in the projects. You can't be afraid to take a reasonable commercial risk. And most important of all, you can't be afraid to think small. There are an awful lot of projects and countries that have come to sad ends because they had been afraid to think sufficiently small and tried to do too much at once.

A final word on what you mentioned, Representative Bilirakis, on Operation Opportunity. A representative of Deloitte Haskins & Sells, Mr. Kaufman, will follow me to explain more. Operation Opportunity is an example of what we would like to do to get smaller businesses involved in what the Government can do for them.

What we discovered is: When small businesses go to look for something in the Government, they are faced with a tremendous marketing problem. When you go to a grocery store and you want to buy a product, you look for a product, and then you go down the line and you can get that product made by several different companies.

When you go to the Government, you have to go to the Small Business Administration, then you've got to go to OPIC, then you've got to go to AID, then you've got to go to people you've never heard of—acronyms you've never heard of—to find out what the programs are.

What we are trying to do in cooperation with seven other departments and agencies, including the Small Business Administration, the Department of Agriculture, and the Department of Commerce, is to collect, by subject matter, all of those items of export and investment information that can help a small business person take that and put it into subject matter files, and then let the small business person know where he or she can go to find out information from a specific agency.

We call it Operation Opportunity, and it has many parts to it. One is the teleconference that will be held on November 16. It will be beamed into 50 American cities, including four Florida cities, one of which will be Tampa. It will be beamed into 66 universities on a special cable network. And in connnection with that, we have already produced a book which will outline all of the programs that are available, again by subject matter, and what a business person needs to assess what the Government can do for a business in investing or trading abroad. That book, which is being published by John Wiley & Sons, will be updated on a semiannual basis and will be available to the participants and to anyone else who wants to buy that book later.

We are prepared to provide, in addition, whatever other information we can to the American business community, and particularly to small business. We are looking forward to this. There is an opportunity to collect that information that we think will be most useful.

Thank you very much for the opportunity to address the committee. I would be happy to answer any questions.

Mr. IRELAND. Thank you, Mr. Williams.

Congressman.

Mr. BILIRAKIS. Mr. Williams, just very quickly, a point that I made to you a moment ago, more for clarification than anything else, for my clarification and particularly any member of the audience.

You referred to a couple of loans made to firms doing business in Costa Rica and one of the other Central American countries, and of course your testimony with regard to projects in Egypt, Pakistan, Costa Rica, Honduras, Jamaica, et cetera. Are there Americans involved in these projects?

Mr. WILLIAMS. Yes, sir. All of our projects involved substantial participation by American companies. All the projects I mentioned are sponsored by American companies. They can also involve local participants as well.

Mr. BILIRAKIS. I'm talking about American labor force. I think you understand the gist of my question. How much American labor force is involved in terms of percentage?

Mr. WILLIAMS. I don't know in terms of percentage, Congressman Bilirakis. What I can say, is that OPIC cannot assist any project that is likely to result in a loss of, among other things, American jobs. We turn down a substantial number of otherwise commercial viable projects every year because they are runaway plants, or because they will result in the loss of American jobs.

The projects that we assist have to improve the American economy as well as the economy of the developing country.

I can't quantify those particular projects. I can tell you that, by our calculations, over the last 2 fiscal years OPIC has produced some 40,000 man-years of jobs in the United States. So we believe we are contributing substantially to the American economy.

Mr. IRELAND. That's a good point. OPIC does well in handling its mandate but is often misunderstood by many.

Mr. Williams, are there any things that ought to be done that aren't being done in your view, in the view of the corporation, that could improve some of the things you are doing?

Mr. WILLIAMS. I think there are, Mr. Chairman.

We will be talking about these a little bit more when our authorizing legislation comes up for fiscal year 1985. We think that there should be some reasonable increase in our appropriations—and once again, these are not taxpayers' funds; they are appropriations, because that's the way the system works. We would also like some additional understanding about greater flexibility, so that we could be more responsive to small businesses because the mechanics of doing business abroad are moving very quickly.

We want to make sure that OPIC is able to keep up with those mechanics. That's the kind of thing we have to do.

Mr. IRELAND. We thank you for your testimony and comments. We appreciate it very much. Thank you.

[Mr. Nalen's prepared statement follows:]

PREPARED STATEMENT OF CRAIG A. NALEN, PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORPORATION

I. INTRODUCTON

Mr. Chairman and Members of the Subcommittee: We are pleased to be here today and would like to thank Chairman Ireland and the members of the Subcommittee for giving us the opportunity to address the role of the Overseas Private Investment Corporation in assisting small business concerns to take advantage of investment opportunities abroad. We shall address three main areas: OPIC's products, OPIC's investment encouragement programs and OPIC's new marketing program.

As you know, OPIC's statutory mandate is "to mobilize and facilitate the participation of United States private capital in the economic and social development of less developed friendly countries." OPIC's programs thus complement both international government-to-government assistance efforts and the national development activities of the investment promotion and finance institutions of the developing nations.

OPIC is a self-sustaining U.S. Government Corporation established under the Foreign Assistance Act of 1961. OPIC issues political risk insurance for U.S. private investments in almost 100 developing countries and helps to finance the investigation and development of private investments.

The urgent developmental needs of the third world nations cannot be met through concessional aid alone. The infusion of private capital has proven to be a much more effective and lasting means for transferring technology, creating jobs and providing the hope for a better quality of life for millions of people throughout the world.

The third world also represents economic opportunities for American businesses. Third world countries represent the fastest growing markets in the world and today account for almost 40 percent of total U.S. exports. The continued growth of the U.S. economy will depend to a large extent on how effectively we compete for these markets in the future. Also, average profits on investments in developing countries are double the average profits on investments in developed countries. Thus, the process of investing U.S. private capital in third world countries is very definitely a two-way street, with benefits accruing to both the United States and the host country.

In response to the interests of both Congress and the Administration, we have sought to increase OPIC's assistance of American businesses investing in these third world countries. Over the last three fiscal years OPIC has accomplished this goal by achieving substantial increases. The volume of political risk insurance issued by OPIC in 1981 reached $1.5 billion, a record level at that time. In fiscal year 1982, OPIC more than doubled that record with an insurance volume of nearly $3.1 billion. Insurance, loan and loan guaranty commitments in fiscal year 1982 were issued for 131 projects of which a record of 37 percent were for small businesses or cooperatives—the largest number of commitments in any single year to that date. Net income for the year reached an all-time record of $83.5 million.

Although Fiscal Year 1983 is not quite over, we expect our overall performance to surpass the record levels achieved in Fiscal Year 1982. Taking into account about $800 million of additional revenue-generating civil strife coverage issued by amendment this year, we expect overall Fiscal Year 83 new insurance issuance to reach or exceed $3.3 billion.

It is noteworthy that this increase in OPIC's assistance took place when the rate of overall American investments abroad was declining. As our own economy improves further, we expect OPIC to be able to do even better. OPIC is an entirely self-sustaining government agency, operating at no expense to the U.S. taxpayer. OPIC's record income in the past and current fiscal years guarantees that we will continue to operate on a self-sustaining basis. In fact, OPIC's record income enabled us to make an unprecedented return of funds to the U.S. Treasury to replace those that were appropriated by Congress when OPIC first commenced operations over a decade ago. Of the $83.5 million OPIC earned last year, $50 million was returned to the U.S. Treasury. I had the gratifying opportunity to present this $50 million check personally to President Reagan last year in a ceremony at the White House. And I can tell you that the President was extremely happy to accept that check and expressed his delight at the fact that, for once, the American taxpayer was at the receiving end rather than the giving end of a transaction. I can also tell you that OPIC has definite plans to return the remainder of its initial appropriation to the U.S. Treasury as well. With the new record levels OPIC's income is attaining this fiscal year, OPIC hopes to repay the remaining $56 million of the initial appropriation in the near future. In any event, the Congress and the American taxpayer can rest assured that OPIC is having a positive effect on the national budget and is providing extremely valuable services without cost to the taxpayer.

Recent statistics have shown that in the last decade, the true growth in employment in the United States has come from the small business sector. The new jobs created today are created, by and large, by small business. This same potential for dynamic growth and positive effects makes small businesses vital to the success of the involvement of private enterprise in developing countries. [1] Small businesses are often better able to work in smaller economies, where the levels of commercial experience are modest, than are large companies. Moreover, small businesses need the markets of the developing countries to expand their own sales and investments.

Smaller businesses face special problems, however, in investing in developing countries. These problems are related to their relative lack of information and experience in identifying and setting up overseas investments, as well as to a a general reluctance on the part of commercial lenders to provide capital in the amounts or on the terms required. So OPIC has a crucial role to play in assisting these small businesses to undertake projects that are important to their commercial expansion overseas and that constitute a special source of benefits to developing countries, as well as new customers for American exports. At the same time, OPIC can achieve its developmental and other goals only if the small business projects it supports are commercially sound. This means that OPIC's programs must be designed to seek out the serious investor with sound proposals.

Small businesses already play an important part in OPIC's activities, during the period January 1975 through July 1983, approximately 65 percent of all OPIC's insurance, finance and feasibility study clients were small businesses. Because of the importance of small business to the fulfillment of OPIC's mandate, however, we at OPIC want to expand OPIC's assistance to small businesses even more. OPIC, therefore, has intensified its efforts to introduce small business firms to the opportunities for investment in the developing world.

In order to provide this assistance, OPIC's efforts to market its services to the small business sector must be intensified, and OPIC must be prepared to offer even more to serve the special needs of small businesses. The following sections explain the programs we at OPIC have targeted towards small businesses and something about the results achieved to date. Despite commendable achievements already, OPIC has not rested. During the past fiscal year we have instituted numerous new programs designed to provide a centralized source of information for the small business executive seeking to invest abroad, an outreach program that will enable the investor to obtain information and have his questions answered without coming to Washington, and a special new program combining OPIC's finance and insurance authority in a product that will be of particular importance to the small contractor. I will tell you more about all of these new products in turn, but I do not want to gloss over our standard insurance and finance products, because they can be vital to a small business seeking to expand into devloping countries.

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[1] Congress has defined "Small Business" for the purposes of OPIC's statute to include any business the annual sales volume of which is less than the annual sales volume of the lowest of the "Fortune 1000" industrial companies or its functional equivalent for non-industrial companies.

II. OPIC'S PRODUCTS

A. *Political risk insurance programs*—OPIC's political risk insurance has been attractive to small business. OPIC's political risk insurance provides broad coverage designed to protect U.S. investors from currency inconvertibility, expropriation, and war, revolution or insurrection. Although no company welcomes the prospect of a loss in its overseas operations, a small company is less able to survive a complete or even a sustained partial loss. This means not only that particular care must be taken in the initial investment decision, but also that a small company has a particularly great need for the type of political risk insurance OPIC offers. For this reason, OPIC's modest insurance registration fee for small business is lower than the standard fee.

OPIC's political risk coverage for "on-demand" letters of credit is an especially important service for smaller businesses. Contractors and particularly subcontractors are often small businesses, and need this protection against the risk of an arbitrary drawing of letters of credit posted as bid, advance payment or performance guaranties. Before the availability of this insurance, U.S. contractors had to include a significant dollar amount in their proposals for self-insurance. Since the establishment of this program by OPIC, American contractors have been able to become more competitive in their pricing. If American companies are successful in bidding on contracts, more opportunities are created for U.S. exports.

During fiscal years 1981 and 1982, OPIC expanded this program to include more types of contractors and assumed administration of a program (formerly administered by the Export-Import Bank) to cover underlying contracts as well as letters of credit. This too is of special advantage to smaller businesses.

While OPIC has offered certain of these special insurance programs for construction contractors since 1972, we are constantly looking for needs that have not been filled and for ways to improve our coverage. We found just such a need and an opportunity when we examined the unique problems confronted by small business contractors seeking overseas ventures. The result was our new small contractors program.

Because small contractors have limited financial resources in comparison to the nation's larger construction firms, their working capital can be dramatically reduced when credit lines at financial institutions are use to obtain letters of credit while bidding on, or performing, overseas contracts.

To alleviate this problem, OPIC created a program to use its investment guaranty authority to provide partial guaranties (up to 75 percent) to financial institutions issuing standby letters of credit, or other forms of guaranties, on behalf of small business contractors entering third world markets. This new guaranty program is operated in conjunction with OPIC's existing contractor insurance program since it has both insurance and finance components. OPIC has laid the groundwork necessary to make the program operational, including receiving necessary approval from its Board of Directors and preparing necessary documentation. The first project under the new program is under consideration. We are hopeful that this is just the beginning of a long list of small business projects that can take advantage of OPIC's innovative new program.

As another means of making its insurance programs more accessible to small business, OPIC is preparing simplified insurance contract forms. A simplified contract will help to insure that the small investor understands contractual terms and may reduce the necessity for it to consult outside experts before purchasing OPIC insurance.

OPIC's statistics show that in fiscal year 1982, 31 percent of OPIC's insurance projects, as distinguished from clients, substantially involved small businesses and cooperatives. As of June 30, 1983, small business and cooperative participation had risen to 33 percent of OPIC's insurance projects for the year. The aggregate insurance coverage for these investors in the first three quarters of fiscal year 1983 approximates $46 million. Of a total of 15 such projects, three are to be sited in Latin America, eight in the Near East, three in South Asia, and one in East Asia. These projects involve manufacturing, farming, construction and services. Six of the projects involve insurance of letters of credit, illustrating the importance of such insurance in helping the smaller investor.

When the statistics for the number of clients, rather than the number of projects, are examined, the participation of small business is shown to be even greater. Since larger companies tend to conduct multiple projects, looking at the number of projects rather than the number of clients fails to show just how significant our involvement with small business actually is. Of the 718 insureds comprising OPIC's total insurance program, from 1975 through July 1983, 454 (or over 63 percent) are small businesses or cooperatives. In fiscal year 1982, OPIC received 253 insurance registrations by small businesses or cooperatives, or 45 percent of the total number of registrations received. This figure was up 7 percent from fiscal year 1981. In the first three quarters of fiscal year 1983, OPIC has received 174 registrations by small business, a figure that equals 45 percent of the total number of registrations received. Thus, on a percentage basis, the potential participation of small business in the OPIC insurance program has already equalled last year's figure.

B. *Financing*—By statute, OPIC's Direct Investment Fund (DIF) Loan Program is reserved exclusively for small business. Through fiscal year 1982 OPIC made finance commitments of $10 million to 12 smaller businesses and cooperatives for projects in Egypt, India, Pakistan, Panama, Costa Rica, Liberia, Haiti, Honduras (2) and Jamaica (3). Further, $26 million in loan guaranties were committed to five small businesses. In all, 60 percent of the projects financed by OPIC in 1982 were sponsored by U.S. small businesses and 10 percent of the projects financed were sponsored by cooperatives. As of July 30, 1983, OPIC had made commitments for eleven additional projects involving small business for a total program volume of $9.4 million. OPIC anticipates that it will finance an additional two projects involving small business by the end of fiscal year 1983.

The primary purpose of the DIF loan program is to encourage and finance U.S. small business investment projects that contribute to the economic development of less developed countries. Such projects can promote development in a variety of ways. Most notably, they can foster expansion of the host country's small-scale industries, as well as provide appropriate technology and managerial expertise to local entrepreneurs.

In fiscal year 1981, OPIC committed $10 million in loans to help finance the establishment of 14 projects sponsored by or significantly involving U.S. small business. These loans mobilized an additional $12 million of local investment capital which may otherwise have lain dormant or been invested abroad, thus not contributing to the countries' economic development.

One result of retaining the DIF authority for smaller businesses is that innovative projects that might normally be shut out of the international credit markets can be financed. The medium- to long-term structure of these DIF loans can allow investors to take on more easily available short-term commercial credit, increasing overall capital flows. It also allows for the extension of pay-back periods over a longer period of time, permitting projects to be more developmental to the host countries.

One example of an investment made through DIF financing is a poultry breeding and broiler farm operated in the Dominican Republic. A small producer and exporter of animal feed, veterinary products and related technical services, headquartered in Southern Florida, was able to expand its operations in the Caribbean through the help of the OPIC Direct Investment Fund. At present, each dollar loaned by OPIC to this company is creating annually $3 of additional export sales from the United States, and $5 of added domestic value in the Dominican Republic. Likewise, each $4,000 of financing invested into this project has created at least one additional job within the Dominican Republic. In short, the project has generated enough profits to amortize its loan as well as provide resources for future expansion.

One feature of OPIC's finance program that has proven to be particularly useful to the smaller investor is a program to reduce the costs of doing business in developing countries by providing partial reimbursement for legal, accounting and other kinds of services. For any company, but particularly for small business, there are risks and uncertainties as well as relatively high costs in operating in a developing country as compared to doing business in a more familiar business environment. These costs arise as a result of unfamiliar legal and financial systems and often extremely time-consuming processes to accomplish project organization or construction, including the obtaining of necessary licenses, permits and approvals.

These factors can and often do result in substantial unanticipated costs to be met "up front" and create a financial burden to the smaller concern, even to the extent of impairing its start-up working capital. Since 1978, when the program was initiated, OPIC has expended well over $300,000 to offset some of these unusual expenditures a small business encounters in starting up or expanding an operation overseas. Over 60 small investors have been assisted in the process, the majority of whom have actually proceeded with their investments.

Yet, despite all the benefits that OPIC's direct loan authority can provide to small business, OPIC is severely constrained in the amount of assistance Congress will permit us to provide. I want to emphasize again, that OPIC's programs cost the taxpayer nothing. OPIC's income more than suffices to cover the costs of administering the program as well as the actual fund from which the loans are made. OPIC's finance programs are, however, subject to congressional appropriation because they involve the full faith and credit of the U.S. Government.

OPIC is currently limited to a direct loan authority of $10 million. We petitioned the Office of Management and Budget (OMB) last year for approval to raise the DIF ceiling to $15 million. We were able to obtain both OMB and Senate approval to increase that amount, but the House Foreign Operations Subcommittee of the Committee on Appropriations refused to give us permission to spend any more of the money we had already earned on the worthwhile program I have just described. Consequently, some deserving and dynamic small business projects had to be turned down this past year, despite the fact that OPIC made enough money last year and the previous year to be able to assist them.

Given the condition of today's economy and the devastating impact that poor economic conditions have had upon small business in particular. We all know that programs such as OPIC's direct loans are sorely needed. And as we head toward recovery, small business will need new infusions of funds to pull itself out of the slump and get moving again. The irony, from OPIC's perspective, is that the funds exist to expand our programs and they could be put to productive use without costing the taxpayer one cent. At a time when other government programs must be trimmed for lack of funds. It makes little sense to restrict a government program that is entirely self-sustaining.

III. INVESTMENT ENCOURAGEMENT ASSISTANCE

In addition to its Direct Investment Funds, OPIC also provides financial assistance in the form of loans and grants to encourage private investment. Through financial and advisory support, it seeks to promote the development of human resources, skills and technology.

1. *Reconnaissance and feasibility study funding*—As we stated earlier, one of the biggest obstacles to small business investment in developing countries has been the lack of information about the host country business climate and the market for a particular product or service. OPIC assists small business in this regard by sharing the cost of reconnaissance and feasibility studies done in the host country. In fiscal year 1981, 8 out of 10 feasibility studies funded by OPIC were for small businesses. During Fiscal Year 1982, OPIC committed funding for 26 reconnaissance and feasibility studies, 24 of which were for small businesses. So far in Fiscal Year 1983, OPIC has approved 21 feasibility studies, 20 of which are for small businesses. Overall, during the past three years, over 93 percent of reconnaissance and feasibility studies funded have been for small business.

Most small businesses are extremely reluctant to utilize their own funds for a reconnaissance trip overseas in what they view as a highly speculative venture—travel to the developing country to meet local sponsors and to assess and opportunity. OPIC is prepared to contribute toward the costs of reconnaissance studies by small businesses. (OPIC staff evaluates these opportunities for which U.S. investors are being actively sought and where, in OPIC's opinion, a contribution toward costs is necessary to enable a potential small business or cooperative to examine the project opportunity in more detail.) OPIC will fund 100 percent of the cost of first-time travel to the host country and per diem allowances up to a total of $5000 on a reimbursable basis for personnel of the U.S. sponsor for on-site assessment of the opportunity.

OPIC is also prepared to contribute toward the cost of feasibility studies (studies conducted in greater depth and detail than the reconnaissance studies). These feasibility studies are often the second step in the investment process, and the results will usually be the decisive factor in whether or not an investor will go forward with its project proposal. At this stage of the evaluation process, a potential investor may hire consultants to help analyze a project's potential and can be partially reimbursed by OPIC for its own and the consultants' salaries. OPIC will pay 60 percent of a small business' costs, up to a maximum of $10,000, for air travel, salaries, per diem allowances and incidentals for travel to the host country and the conduct of the study.

OPIC has found the reconnaissance and feasibility studies to be an excellent method of assuring that the investments made by U.S. companies will be economically sound and successful. During the past three years, OPIC has achieved a record ratio of investment to feasibility study funding. Every half million dollars of OPIC funding produced $25 million of investment in 1982. That equals a ratio of 50 to one—a tremendous increase over the previous nine years' ratio of three to one.

Nothing can substitute for the opportunity to talk to the host government officials who will be responsible for approving the project and whose support will be crucial to its success. Nor is there any substitute for actually meeting with potential purchasers of the products and potential joint venturers. Without this firsthand opportunity to survey the commercial landscape before shouldering the full burden, many small businesses could not invest in developing countries.

Almost all of OPIC's authority for funding such studies goes to small businesses. Small businesses are required to repay these costs only if a project goes forward. Large businesses, by contrast, must repay such costs in any event (and can receive assistance only in very limited situations.)

2. *Investment opportunities missions*—Investment missions began in 1975 when the first group of U.S. executives visited the Middle East and North Africa. Since that time, OPIC has conducted 25 missions that hundreds of U.S. business executives have utilized to examine investment possibilities in 48 countries throughout the world. Small business executives have taken advantage of this opportunity to view firsthand the project opportunities available in developing countries. The investment opportunity missions are especially useful for small companies because they provide the type of host country contacts that bigger companies can obtain on their own. The small company has the opportunity to meet the country's officials and personally discuss the project it is proposing. OPIC's goal is to attract as many small businesses as possible for participation in its mission program.

Over the past three years OPIC has made a special effort to involve small businesses in investment missions. OPIC is also aware of the importance of thorough screening of potential participants to insure that those who attend have a serious interest in investing in the country they visit. OPIC has also intensified its efforts to seek out potential projects and host country joint venture partners before the mission leaves home. This insures a successful mission and greatly increases the probability that new investment will result. By instituting this approach, OPIC has achieved record levels of planned investment by mission participants. In 1982, 78 percent of those participating in OPIC investment missions planned to invest in the country they visited. In the previous nine years, that figure and been only 3 percent. In Fiscal Year 1982, OPIC conducted four missions to four countries. Of the 62 companies participating in these missions, 58 were small businesses. (Of the 62 companies participating in the missions, 52 percent currently plan to make investments in the country they visited.)

So far in Fiscal Year 1983, OPIC has conducted 5 missions to 10 countries. Of the 91 companies participating in these missions, 83 were small businesses. Seventy five of the participating companies are planning to invest. Still scheduled for this Fiscal Year is a mission to Turkey. Missions to Indonesia, Uruguay, Costa Rica and China are scheduled for 1984. OPIC's investment mission program will be coordinated with OPIC's other programs, as well as with other agencies of the U.S. Government, in order to assure that as many small businesses as possible are made aware of the mission program and its opportunities.

3. *Telemissions*—OPIC has pioneered the use of the latest technology available to bring potential investors and host country officials together by a live two-way satellite broadcast. It is, in effect, an investment mission conducted by television. The U.S. participants not only get to see and hear from the host country business executive and officials, but they are able to ask questions as well.

The purpose of this innovative program was to increase the participation in missions, especially among small businesses. Although an investment mission is the ideal way for a business executive to fully explore a project opportunity, a week long trip is often not feasible for a small business executive with almost total responsibility for his or her company. In these cases, a telemission can provide an alternative. The telemissions are also structured to provide a pre-mission orientation to a country's business climate and investment needs.

The first OPIC-sponsored telemission took place on April 15, 1982 and linked Cairo, Egypt with six U.S. cities, with Walter Cronkite as moderator. Of almost 800 participants, it is estimated that 75 percent were small businesses.

OPIC's second telemission was incorporated into the Caribbean Investment Opportunities Program, undertaken jointly with the Private Enterprise Bureau of the Agency for International Development (AID/PRE). The Caribbean was chosen because the Reagan Administration has assigned to the Caribbean Basin a central role in its global development strategy, based on the region's economic and geopolitical importance to the United States and of the need to alleviate the region's widespread poverty. The purpose of the special program was to encourage U.S. businesses, especially small businesses, to review investment opportunities in the Caribbean and to make those businesses aware of programs offered by OPIC and AID/PRE to assist them.

The OPIC/AID Caribbean Telemission took place on October 28, 1982, linking eight U.S. cities (Chicago, Washington, D.C., Dallas, Miami, Boston, Minneapolis, New York and New Orleans) with officials and business leaders from a variety of Caribbean nations. The telemission originated in Miami and Washington, D.C. with viewing and broadcast to sites accommodating 1100 participants, the majority of whom represented small businesses. The telemission focused upon agricultural production, food processing, and light-manufacture assembly in the region's free-trade zones.

4. *Grants and investment encouragement loans*—OPIC also contributes to the success of some U.S. small business investment projects through the provision of funds on a grant or concessional loan basis. These funds may be used to conduct training programs for host country employees. For example, OPIC has recently begun to utilize this authority to assist in the process of U.S. technology transfer. OPIC is assisting the Fund for Multinational Management Education which has recently initiated a program in the ASEAN area to train local entrepreneurs to identify, acquire and manage modern American technology. This series of courses was requested by the local business communities involved, which were seeking alternatives to Japanese products. This program is designed to acquaint Southeast Asian business executives with U.S. sources of technology, particularly that which is orignated by smaller and medium-sized businesses.

OPIC has also found that some U.S. private voluntary organizations (PVO's) could serve as intermediaries in identifying and providing assistance to U.S. small businesses. Since 1978, OPIC has provided investment encouragement assistance to selected programs for small private enterprise development conducted by certain PVO's with a demonstrated record of overseas involvement with small business or cooperatives. Much of OPIC's support to PVO's has been centered in the Caribbean.

One of these organizations, Witherspoon International Corporation, is a nonprofit organization which provides debt or equity financing and technical advice primarily for projects sponsored by or significantly involving U.S. small business enterprises. Prior to OPIC's funding, Witherspoon's predecessor, Witherspoon Development Corporation, was primarily engaged in assisting minority operated enterprises in the United States. OPIC's support enabled Witherspoon to expand its lending operations to the Caribbean. In fiscal years 1979-82, OPIC has disbursed or committed financing of $1.3 million to allow Witherspoon to continue its relending program to small business projects in the Caribbean.

IV. MARKETING

Institutions programs to assist the small business in overseas investment is not enough by itself. OPIC's goal is to make certain that the right people hear about them and know how to use them. Therefore, OPIC has been attempting to use innovative and effective means to get its message out to the public. The following paragraphs describe how our marketing strategy has evolved and what our plans are.

A. *Advertising and public relations*—The advertising program OPIC has instituted as its purpose the broadening of the general public awareness of OPIC and its programs. Because the small business community is extremely large, diversified and widely dispersed, it is only through a broad-based marketing effort that OPIC can reach the small investor it seeks to assist. The program was initiated in an effort to reach especially the small businesses, which can now examine OPIC and its programs through regional banks and other financial institutions.

OPIC's advertising program consists of educational films and print copy that explain what OPIC is and what it does. Films will be shown around the country by financial institutions and other intermediaries to extend OPIC's reach. Through advertising in both newspapers and magazines of general circulation as well as in specialized trade publication for industries of particular interest to developing countries, an intensified effort has been made to reach small business. (OPIC also increases public awareness of its programs through a series of newsletters and press releases.)

B. *Toll-free telephone system*—OPIC's advertising directs potential investors to yet another source of information—a toll-free telephone number at OPIC where trained personnel will answer questions, determine needs and mail out additional information. To increase the benefit of the small business toll-free telephone system, a procedure has been established for informing the Commerce Department of calls received. In this way, the Commerce Department's International Trade Administration specialists, on OPIC's behalf, as well as OPIC's own staff, can call on the small business executive to explore problems or questions and discuss assistance available from other agencies as well as OPIC.

C. *Direct mail*—In addition to advertising, newsletters and press releases, OPIC is using direct mail to contact potential investors. OPIC is also using lists from trade associations and other sources to contact small business in various industries to inform them of our services.

D. *Investor information service*—OPIC is just beginning a pilot program to assist small businesses in locating the information they need to make an investment decision, whether that information be about particular countries as sites for investment, or about the countless other topics of interest to the entrepreneur setting out to do business abroad. OPIC is accomplishing this goal of information dissemination by means of two vehicles. One is the Annotated Investor's Information Guide. This guide is a bibliography of publications by both the public and private sectors that provide information useful to those contemplating overseas investment. The guide describes over 250 publications and information services produced by more than 70 public and private sources. It contains a cross-section of materials available from government agencies, international organizations and private firms regarding international trade and investment. Each listing is accompanied by a brief synopsis of the topics covered and lists both price and ordering information, the guide will be updated and expanded periodically to provide the most current information available. The guide should prove invaluable both to the business executive who has just begun to think about overseas expansion as well as to the serious investor with a project already in place overseas. Both will be able to ascertain whether they have the most complete and current information without spending several days in the library or on the telephone.

The second component of OPIC's Investor Information Service is its newly inaugurated country information service. Anyone who has ever tried to gather together all the U.S. Government publications pertaining to a particular country or region knows what a frustrating and time consuming process that can be. No one doubts that there is a wealth of information published and updated everyday by the U.S. Government. The printing presses at the Government Printing Office run around the clock—and so might a small business executive trying to accumulate the data he or she needs to make an investment decision about a country. Now, OPIC has taken some of the frustration out of this process by doing all the running around for the small business community. We have stocked a library of U.S. Government publications covering over 100 countries and we keep that information up to date. Now OPIC can offer a form of one-stop shopping for the small business executive who wants up-to-date information on the country or region he or she is thinking of investing in.

E. *Small business conferences*—For several years, under the export and investment seminar program sponsored by OPIC, the Export-Import Bank, the U.S. Departments of Commerce and Agriculture, and the Small Business Administration, officers of the five agencies provided information on available services and opportunities to over 12,000 small business executives in over 75 cities around the country.

In addition, OPIC has funded or organized numerous small business seminars devoted exclusively to overseas investment. For example, OPIC has given the American Association of Minority Enterprise Small Business Investment Companies (AAMESBIC) a grant of $250,000 to enable it to sponsor, among other things, a well-regarded series of conferences in major American cities designed to introduce U.S. small minority business to some of the advantages of investing abroad.

OPIC has also participated in other conferences and seminars with U.S. small business and cooperative groups. These have included the Young Presidents' Organization and various agricultural cooperatives. This type of activity has substantially increased the coverage of OPIC in business publications and has resulted in an increase in requests by small businesses for further information on OPIC's services.

F. *Insurance broker's program*—OPIC has established a program under which OPIC will pay commissions to licensed insurance brokers and agents on OPIC insurance issued to small business investors. What this means to a small company is that it no longer has to deal with OPIC in Washington, but can obtain insurance through its own licensed insurance broker. It can be freed of the responsibility of registering or applying for, renewing or amending its political risk insurance coverage by commissioning a broker to do the paperwork for it. OPIC, rather than the small business, pays the broker's commission. OPIC currently plans to increase the commissions it pays to brokers in an effort to expand utilization of the program.

G. *Investment opportunity bank*—In OPIC's experience, it is frequently the small business that is most suited to investment in the small-scale projects in developing countries. Until now, a major obstacle for U.S. companies considering overseas investment has been the difficulty in finding a reliable source of information on the overseas investment opportunities. Conversely, the lack of information regarding these U.S. forms has been a source of frustration to Third World businesses seeking to identify potential U.S. partners.

OPIC has attempted to eliminate this lack of information by developing the Opportunity Bank, a computerized system designed to help identify investment opportunities in the developing world. It allows U.S. firms, which have registered with the service, to compare their overseas investment intentions with profiles of overseas investment opportunities and select those that appear complementary. The process works equally well for foreign firms seeking to identify potential U.S. investors.

It is the small business investor that will stand to gain the most from the Opportunity Bank service because it is the small investor that is less likely to be able to obtain the information on its own.

OPIC gathers the overseas project information primarily from American Embassies abroad, local Chambers of Commerce, overseas offices of a major accounting firm, and from foreign firms already aware of our service. The program is scheduled to be fully operational within the next few months.

H. *Coordination with the private sector*—For a long time OPIC has grappled with the problem of how to increase its impact on the small business community throughout the nation while operating with a permanent staff of fewer than 140 people, all of whom are required to remain in Washington. We have hit upon an idea that we believe will work—a way to spread and multiply our human resources so we can better communicate with the business community about OPIC's programs.

We have arranged with the accounting firm of Deloitte, Haskins and Sells to coordinate with OPIC in encouraging U.S. small business to consider investing abroad. (Deloitte, Haskins & Sells had already targeted its accounting services to the small business community.) Now, OPIC will be able to take advantage of Deloitte's nationwide offices and staff to spread the word about OPIC programs. Deloitte personnel are familiarizing themselves with OPIC's programs, stocking their field offices with our brochures and registration information and will be showing videotape on OPIC's programs around the country of local business groups. By coordinating with Deloitte, and as the occasion develops, with other private companies, OPIC is expanding, at no cost to the agency, its ability to respond to potential investors and provide background information. In addition, the Deloitte network abroad will be used to augment the project and investor information available through the OPIC Opportunity Bank computer base. We believe that our coordination with Deloitte will improve the quality and quantity of assistance we can provide to small business and we look forward to increasing OPIC's effectiveness through such cooperation between the Government and the private sector.

V. OPERATION OPPORTUNITY

The newest example of the marketing efforts OPIC is undertaking is a program called Operation Opportunity, which OPIC is organizing and coordinating together with seven other agencies and departments: Department of Agriculture, Department of Commerce, Office of the U.S. Trade Representative, Agency for International Development, Export-Import Bank, Small Business Administration, and the U.S. Trade and Development Program. These agencies administer the bulk of programs for assisting American firms wishing to do business abroad. The aim of this special project is to simplify the American business community's access to and understanding of U.S. Government programs that are available to help American firms of all sizes do business abroad. This will be, we believe, especially useful to smaller businesses.

The impetus behind Operation Opportunity was a series of surveys by OPIC of executives from American corporations with international operations. One survey found that less than 50 percent of executives polled were aware of existing federal programs which could help U.S. companies planning overseas ventures. Another survey revealed that U.S. business executives were more aware of Japanese and European Government programs than of all of the U.S. agencies providing comparable services (with the exception of the Commerce Department). Futhermore, executives give higher marks to Japanese and European agencies than to the U.S.A agencies for effectiveness and accessibility.

Given those findings, OPIC went to work with other agencies to devise the concept of Operation Opportunity. Its primary objective will be to raise the level of awareness among U.S. businesses about the availability and benefits of existing U.S. programs and to help them compete successfully in the international marketplace.

Operation Opportunity will begin on November 16, 1983 with a live two-hour closed circuit TV videoconference and the release of a detailed reference book. The program will be beamed from Washington, D.C. to thousands of business executives at selected sites in 50 U.S. cities. The videoconference will be broadcast live by 66 university television stations through the National University Television Network. High-ranking government officials from seven departments and agencies will discuss the various programs available to U.S. firms interested in investing, exporting, marketing or contracting overseas. The officials will provide case studies, spotlight popular programs and answer audience questions.

Through the Operation Opportunity broadcast, the small business executive will learn:

What government programs are available to help U.S. firms successfully compete overseas in such areas as agribusiness, contracting, exports and manufacturing.

How to limit the risks of operating, exporting or investing overseas.

Some examples of specific investment, joint-venture and export opportunities currently existing overseas.

How other U.S. firms have taken advantage of the government programs to compete or invest overseas, including actual case studies.

Following the broadcast, there will be an hour-long seminar at each videoconference site entitled, "Overseas Investment Incentives and U.S. International Taxation Issues" where small business executives can gain additional insight into the business benefits and concerns of operating overseas.

Participants in the Operation Opportunity videoconference will receive a 200-page reference book, entitled "Washington's Best Kept Secrets," detailing the government programs available to U.S. firms seeking to do business overseas. The reference book repackages the programs into a business-oriented format more useful to a potential investor; that is, it organizes the programs by "product" rather than by agency. OPIC uses the analogy of a supermarket to explain this packaging approach. If a shopper wants soap, he or she goes to shelves containing soap. The shelves are arranged by product not by manufacturer. Likewise, if a business executive wants information about feasibility study funding, he or she should be able to find it in one place, not have to shop around several agencies to see which ones offer it. The reference book organizes the programs in the sequence in which an investor will need them as they progress through the various stages of their investment, from targeting opportunities and judging the feasibility to financing the deal and protecting the venture. The book provides names, addresses and phone numbers of the correct people to contact about each of the programs and it will be updated at six-month intervals to keep those names and numbers accurate. The book will later be sold through retail outlets.

As you can see just from this brief overview of Operation Opportunity, OPIC has embarked over the past three years upon innovative methods to bring to small business the message that opportunities abound abroad and that the U.S. Government is vitally active in helping U.S. business take advantage of those opportunities.

We at OPIC want to promote economic development in developing countries by encouraging and assisting U.S. private investment. In the past three years, OPIC's encouragement and assistance increased substantially. We believe that small businesses are essential to the success of this policy, and we have put the latest technology and innovative marketing techniques to use to reach that audience, which perhaps stands to gain most from the use of OPIC's programs. We shall continue to try to reach the small business executive we have been seeking. With continued effort, we believe we can assist even more small businesses in overseas investment that is financially rewarding for them, developmentally beneficial to most governments and economically advantageous to the United States.

Mr. BILIRAKIS. I would like to do some recognizing here. I wanted to do some recognizing of the elected officials here in the audience. I believe a couple have left and I know there are some here that I haven't seen.

I know Commissioner Jim Lyles from Largo is in the audience, and Commissioner Manuel Sisrias was standing in the back. I don't see him now. Commissioner Rita Garvey of Clearwater came up for this.

Are there any other elected officials that I can't spot from here? I appreciate very much your interest in small business.

Thank you, Mr. Chairman

Mr. **Ireland**. We would call now Mr. Richard J. Kaufman, partner of Deloitte Haskins & Sells, to come forward. You have been well-advertised here. I think all of us look forward to hearing about Operation Opportunity and quite a remarkable thing it is.

TESTIMONY OF RICHARD J. KAUFMAN, PARTNER, DELOITTE HASKINS & SELLS

Mr. **Kaufman**. Thank you, Mr. Chairman.

This certainly is a pleasure to speak before this group and to further promote the cause of Operation Opportunity. You have been very kind in mentioning this worthwhile endeavor.

I would just like to comment that this appears to be potentially a very successful effort. Both public and private sectors cooperating to bring some much-needed information to the small businessman.

We at Deloitte Haskins & Sells have been vitally interested in small business. It is actually a significant portion of our practice, which is organized along the line of small business tax audit and consulting.

I would just briefly like to go over what Operation Opportunity will present, and then answer any questions. As I say, I thank you for this opportunity.

Eight Federal agencies are participating in the project called Operation Opportunity. It is designed to simplify the U.S. business community's access to Government programs that can help firms of all sizes to do business abroad.

The 2-hour video conference originating in Washington, D.C. will be beamed to executives at Curtis Hixon Hall in Tampa. The program begins at 11:30 in the morning. A couple of introductory speeches will be made, and then the video conference will actually begin at 12 noon.

We expect more than 5,000 businessmen and women to participate in this in 49 cities throughout the country.

During the broadcast, heads of eight Government agencies will discuss the various programs available to U.S. firms interested in overseas business opportunities.

In addition, audience members will be able to ask questions about specific Government programs.

One of the key things will be a 200-page reference guide, which I have just recently seen an advance copy of, and it details the dozens of Government programs available to U.S. firms seeking overseas markets. It includes the names and addresses of Government personnel to contact.

The program will conclude with an hour long seminar on international taxation, which our firm will present. The cost is $125 per person, but we feel this is reasonable in relation to the value received, primarily in the book and subsequent updates.

There are eight participating Federal agencies which are involved in this, and they actually will be administering the program.

Deloitte Haskins & Sells' role, along with that of the other almost dozen private companies, is really to sponsor, support, and host this program.

The program itself was initiated by the Overseas Private Investment Corporation after a survey exposed that American businesses were unaware of Government programs to assist them in overseas activities.

In most U.S. business, executives thought the governments of other industrialized nations offered their businesses more and better programs for stimulating overseas business development.

We feel that we have a good start here. The program is in place and our job, as accountants and advisors to businessmen, is to make them aware of what is there. Certainly we all hope for better and more programs, but let's effectively use what we have. And this is the thrust of Operation Opportunity.

The problem basically, as alluded to earlier, is, we need to advertise these products by product line.

A little bit about the book. The book begins with discussions of Federal programs to help U.S. businesses plan specific overseas operations.

In other words, this starts at the beginning. We don't start by saying, well, let's get a loan. We need a feasibility study. We need to go from the beginning to the end and that's the way the book is laid out. It covers research services, feasibility assistance, and market information. Then, the deal is put together, including financing, insurance, training programs, and licensing help.

The book, if you do not make the conference, will be sold through retail outlets at a later date.

In closing, I would like to comment on the private organizations that are participating in this.

In addition to our firm, there is Fortune magazine, Hilton Hotels, the Management Analysis Center, National University Teleconference Network, the South Carolina Educational Television Commission, and the U.S. Chamber of Commerce.

John Wiley & Sons will be publishing the book and Wold Communications will be handling the communications at the conference.

Again, thank you for this opportunity. I would be pleased to answer any questions you might have, Mr. Chairman.

Mr. **IRELAND**. Thank you, Mr. Kaufman. Congressman, do you have any questions?

Mr. **BILIRAKIS**. I guess not.

The $125 registration fee is applicable even to those who attend the video conference at Curtis Hixon Hall in Tampa; is that correct?

Mr. **KAUFMAN**. And, as I mentioned, there is a book. Plus the updates, plus the meal.

We expect to make it a fast-moving, exciting but informative day for those who attend, and I think the value is there for the price.

Mr. **BILIRAKIS**. Thank you, Mr. Kaufman.

Mr. **IRELAND**. Thank you.

As we get into the other part of our program here and hear from individual companies, I would suggest to those of you who will appear, to think about Operation Opportunity. If you have any comments about it and what you think it can accomplish, I am sure that Mr. Kaufman would like to hear them.

I am also sure that anything for the record would be helpful because this is obviously the kind of thing we want.

Thanks so much.

Yes, Mr. Williams.

Mr. **Williams**. Mr. Chairman, if I could make one more comment for the record.

Mr. Kaufman mentioned the involvement of the private sector companies in Operation Opportunity and I want to take this opportunity to express to the committee and for the record how grateful all of the Federal agencies are for the public spirit that is shown by these private sector organizations, including Deloitte Haskins & Sells.

I think Operation Opportunity is and will be an excellent example of how the private sector and the government can work together to do something for the benefit of the business community.

Mr. **Ireland**. The literature is located in the back for those of you who wish to have it.

We will now hear from Mr. Cliff Topping, executive director of Tampa Bay International Trade Council.

TESTIMONY OF W. CLIFF TOPPING, EXECUTIVE DIRECTOR, TAMPA BAY INTERNATIONAL TRADE COUNCIL

Mr. **Topping**. Thank you for this opportunity to be here.

I am Cliff Topping, the executive director of the Tampa Bay International Trade Council, and also the coordinator of the super task force for internationalizing the Tampa Bay area in the eighties. It is good to be here and we thank you for this opportunity.

I would like to bring to you greetings from my chairman, Ben Atkins, who was originally asked to appear before you. Unfortunately, he could not. He wished me to express his regrets for not being able to be here, but we do appreciate this opportunity.

I would also like to commend the subcommittee and particularly you, Congressman Ireland and Congressman Bilirakis, for inviting us and providing us this opportunity to discuss export promotion from the viewpoint of the trade council and the super task force for small business.

Unfortunately, we don't have printed copies yet of the remarks I will make today, but we will have them for the record and send them to you next week.

We will also have additional material from the trade council and super task force for you. I hope the remarks we are going to make publicly here will be of record also.

The trade council's membership of more than 200 firms and individuals is composed predominantly of firms in small business category.

Before going further, I think it is important that we define what we are talking about when we talk about small business.

A small business to us is any company with $1 million or less in annual sales. We are aware this is not the definition and perhaps out of step with the definition of the generally accepted term that small business is somewhere in the range of $25 million or less, but for us in Florida a small business is a small business.

In today's hearing, as has been pointed out already, witnesses are being invited to comment on questions of what is being done for small businesses in the way of assistance by our various organizations, and what we feel the Federal Government should be doing to encourage small business export opportunities.

Turning to the first question about our assistance, we will provide you detailed information about our organizational materials and an annual summary of what both the trade council and super task force is doing.

Hopefully, this material will define what we are doing in the way of assistance for the small business.

Concerning the second question of what we feel the Federal Government should be doing to encourage small business export opportunities, I am afraid at this point the response could be rather laboriously long and detailed, but we will leave that to the larger organizations and perhaps the U.S. chamber, as it does on an annual basis, will be able to give us the kind of study that seems to have been more meaningful.

Certainly there is much to be desired in the development of the national export expansion policy of relevance to small business. But, rather than talk about export imperatives, private sector initiatives, this incentive straight barrier, and so on, we have just three points that we would like to briefly discuss.

The first one is that export finance continues to be the single most important factor among government export programs, particularly so for small business. High interest rates and tighter commercial bank lending policies have enhanced the advantage of foreign competitors whose governments provide export finance support.

The Export-Import Bank program has undergone, and continues to undergo, extensive reevaluation in the Congress and in the executive branch. The fact remains at present the bank provides little or very limited funding for small sales.

Possible solutions under the working capital programs offered by Eximbank and the Small Business Administration might find more acceptance if a way could be found to reduce the administrative paperwork burden, and we offer that as one suggestion.

But even that won't be helpful unless information about programs and services gets to those who can best make use of them and here I am speaking of commercial banks. And, unfortunately, I have some banks in our area that are not fully aware of all of the Eximbank programs for small businesses. Also, industry trade associations and trade specialists and local chambers of commerce.

Small business is repetitive in its expression that short-term financing is needed the most. Banks, however, are finding it less and less attractive to work with small business or exporters due to much of the recent history of FCIA—Farm Credit Insurance Association—claims proceedings.

It has been said that banks have suffered losses because claims are not being honored on technicalities. And that FCIA, when it does, is slow to honor claims. And there are reasons for that, but we are not so sure that all the reasons are valid.

I think we are all aware that Exim and FCIA complement each other. And FCIA does, under its small business policy, offer concessions, and some of those concessions are not deductible and certainly 95 percent of the commercial risk coverage.

However, in this part of Florida, we have found that a small exporter, rather than obtain his own policy under FCIA, often prefers to insure under the bank's policy because the bank has the administrative support and the expertise.

Banks, on the other hand, are not interested in working with the small exporters because, one, they feel they should not be held accountable for contract disputes—claims should be honored in that event—and two, deductibles should not apply to receivables generated through small exporters, which is the case when the small exporter has his own FCIA policy.

In the final analysis, small exporters in our area who could export may be deterred because of the administrative and technical details incurred if they obtain their own FCIA policy. And we are aware, of course, of Eximbank now taking over more and more of that.

Concerning Exim's medium term, financing programs, the lament is still that interest rates are not competitive with foreign sources.

And a comment to that: Why must the burden of proof rest upon the U.S. exporter to show that foreign competitors obtain better financing terms? This is extremely time consuming to document for our small business and the exporters and frequently results in the loss of the bid on the project.

One other consideration to include the export performance of the small business is that the financing of product sales—let me repeat that—the financing of product sales should be made equally important to the finance projects, which has been so much a part of Eximbank and its financing program.

Now, to the second point. Much of the criticism leveled at Federal export promotion activity has been triggered by a lack of consistency, not only in the quality of a particular program, but in the year-to-year direction.

This is alined to frustration. I am sure that both the U.S. Department of Commerce and SBA find, with the tendencies of most Government agencies to replace or overshadow tried and tested programs with innovations which usually, unfortunately, are associated with the change in administration.

On the other hand, there is a vast array of material and services provided by the Federal Government to help firms increase their export business.

The major problem is how these programs, materials, and services are being directed and utilized. For the small exporter, they need personalization.

Our recommendation, therefore, is that these programs, these materials, and these services, be placed at the disposal of the local level, be it a chamber of commerce or a trade organization with active export promotion programs.

All too frequently local representatives, be they Small Business Administration representatives, or U.S. Department of Commerce representatives, are spread too thin. And by that I mean they have too much to do in an overexpanded territory with too little time.

Chamber, or international organizations, or trade groups, could be an extended arm and add that personal experience confirmations likely to be most effective and beneficial to small businesses and small exporters.

We foresee, of course, that close association with the local U.S. Department of Commerce representative or the SBA representative will be necessary to insure the success of such an undertaking, as well as satisfy the governmental logistics of comparability.

Third, and final, and closely alined to the second point which we have just spoken about above, is training. Both the U.S. Department of Commerce and the Small Business Administration have training programs for their international representatives, including periodic updates.

Why couldn't potential local chamber of commerce representatives, and international representatives, and trade association international representatives receive some training at both or either of the U.S. Department of Commerce or the Small Business Administration? They train their representatives in a specific way. I don't see why that kind of training cannot be made available to the private sector.

It is a fact that the large majority of chambers and trade associations throughout the United States do not have international representatives. But they could have.

This seems to us an excellent opportunity for public/private sector cooperation.

The training need not be as indepth as that of a regular U.S. Department of Commerce or SBA representative would receive, but it does need to be thorough, including a sound grounding of what programs, of what services, of what materials are available from the various governmental agencies to assist exporters.

We believe that such a training program could build such a great rapport and a spirit of cooperation between the public and private sectors on the local level; that more and more companies could be encouraged to export and capture their fair share of what may result in nearly a $5 trillion world market by 1988.

In closing, we wish to suggest that the underlying structure for any point, which we have discussed here this morning, must rest on five major principles, and those five principles are:

Keep it simple.

Keep it noncontroversial.

Design it to be implemented early.

Design it to be implemented quickly.

And remove it from future potential pressures.

Thank you very much.

Mr. **Ireland**. Thank you, Mr. Topping.

On that last five, I think that applies to a lot of things in this world.

Let me tell you, hopefully, some good news.

You had a thrust about the Export-Import Bank Congressman Bilirakis alluded to at the outset. You will be pleased to know that, in addition to the fact that we have set aside in the House version of rechartering of the Export-Import Bank; that this very day—should have been yesterday, but the Senate's action in considering the Korean massacre that took place—but this afternoon the Senate will act on that version of the bill, which does include, as does the House version, the competitiveness feature of the Export-Import Bank.

Of course, that's important both to big businesses as well as small businesses. It also includes small business set-aside.

Unfortunately, over some 40-odd years, the Export-Import Bank and the pleadings of the people in the Congress for them to address the very things that you listed there, the intention needed to work with the smaller companies of America. None of this happened. Hence, we are changing the charter so that by law they have to.

It is too bad we have to work that way sometimes, but then we will hopefully get some of these programs. Some of the energetic small business people of the world will take care of the rest.

Hopefully, before nightfall today, it will be through the Senate in a version that will bring some of the solutions that you have asked for.

The FCIA part of it is an obvious program and, as you know, the FCIA Insurance Company has pulled out, and how that will be resolved and whether there will be any improvement will not be known.

But I am sure that if we get the bank chartered in such a way that they have to think about the smaller product instead of project-oriented money operations, something will happen.

I think we are dealing there with that old human attribute. It is just as difficult to make a single $1 million loan as it is a $10 million loan. You make that $10 million loan and you only have to make one-tenth of the effort and you get much more pens on your desk, extra pictures on your wall. So the glamour is with the big ones. What we need are the small ones.

And I think there is a little groundswell out there that we are trying to prod along—Congressman Bilirakis and I—to make a move in that direction.

I personally think your idea of emphasizing the training is the kind of suggestion that comes from the grassroots, in all candor, in our efforts to get the information and the abilities of the Government in helping the small businessman.

That is the first time I have heard someone say train somebody besides their own people.

Congressman, do you have any questions?

Mr. Bilirakis. Just to compliment your fine remarks, Mr. Chairman, and compliment Mr. Topping for his fine presentation.

Would you say, sir, that the local banks are reasonably cooperating?

Mr. Topping. Reasonably cooperating. In what way?

Mr. Bilirakis. Are they basically getting the proper courtesy and showing the proper interest to prospective customers in this area?

Mr. Topping. Yes, I think very much so. In fact, most of our local banks—certainly those with international divisions are the ones we speak of primarily—are doing quite well. We realize that interstate banking has become more and more of a reality as time goes on and that they are doing better.

Mr. **Bilirakis**. If we can ever be of any help in this training area that you are referring to, just let us know.

Mr. **Topping**. Thank you very much.

Mr. **Ireland**. Thank you, Mr. Topping.

[Mr. Topping's prepared statement, with attachments, follows:]

PREPARED STATEMENT OF W. CLIFF TOPPING, EXECUTIVE DIRECTOR, TAMPA BAY INTERNATIONAL TRADE COUNCIL

I am Cliff Topping, Executive Director of the Tampa Bay International Trade Council and Coordinator of the Super Task Force for Internationalizing the Tampa Bay Area in the 80's.

I wish to commend the Subcommittee for providing this opportunity to discuss export promotion from the viewpoint of the Trade Council and Super Task Force for small business. The Trade Council's membership of more than 200 firms and individuals is composed predominantly of firms in the small business category. Before going further we wish to clearly define small business. Small business to us is any company with a million dollars ($1,000,000) or less in annual sales. We are aware that this definition is perhaps out of step with the generally accepted term of a dollar range of $25,000,000 or less, but for us in Florida a small business is a small business.

In today's hearings, witnesses are being invited to comment on questions of what is being done for small business in the way of assistance by our various organizations and what we feel the federal government should be doing to encourage small business export opportunities. Concerning the first question about our assistance, we have attached copies of our organizational materials and an annual summary. Hopefully, this material will clearly define what we are doing in the way of assistance to small business. Concerning the second question about what we feel the federal government should be doing to encourage small business export opportunities, the response could be a laboriously long and detailed compilation, but we will leave that to larger organizations such as the U.S. Chamber of Commerce, perhaps the principal spokesman for the American business community—large and small.

Certainly, there is much to be desired in the development of a national export expansion policy of relevance to small business; but rather than talk about export imperatives, private sector initiatives, disincentives, trade barriers, and so on, we have just three points to discuss briefly.

First, export finance continues to be the single most important factor among government export programs, particularly so for small business. High interest rates and tighter commerical bank lending policies have enhanced the advantage of foreign competitors whose governments provide export finance support.

The Export-Import Bank program has undergone and continues to undergo extensive reevaluation in the Congress and in the Executive Branch. The fact remains that, at present, the Bank provides very limited funding for small sales. Possible solutions under the working capital programs offered by EXIM Bank and the Small Business Administration might find more acceptance if a way could be found to reduce the administrative paperwork burden. But even that won't be helpful unless information about programs and services gets to those who can best make use of it—commercial banks, industry trade associations and trade specialists in local chambers of commerce. Small business is repetitive in its expression that short term financing is needed most. Banks however are finding it less and less attractive to work with small business or exporters due to much of the recent history of FCIA (Foreign Credit Insurance Association) claims procedures. It has been said that Banks have suffered losses because claims are not being honored on technicalities and that FCIA when it does is slow to honor claims.

We are all aware that EXIM and FCIA complement each other and FCIA does under its small business policy offer concessions such as the no deductible and 95 percent of the commercial risk coverage. However, in this part of Florida we have found that the small business or small exporter rather than obtain his own policy often prefers to insure under the bank's policy because the bank has the administrative support and expertise. Banks on the other hand are not interested in working with the small exporters because (1) they feel they should not be held accountable for contract disputes—claims should be honored in that event; and (2) the deductible should not apply to receivables generated through small exporters which is the case when the small exporter has his own FCIA policy.

In the final analysis small exporters who could export may be deterred because of the administrative and technical details incurred if they must obtain their own FCIA policies.

Concerning Exim's medium term financing programs the lament is that still interest rates are not competitive with foreign sources, and concomitant to that, why must the burden of proof rest on the U.S. exporter to show that foreign competitors obtain better financing terms. This is extremely time consuming to document and frequently results in a loss of the bid on a project.

One other consideration to improve the export performance of small business is that the financing of product sales should be made equal in importance to the financing for projects.

Second, much of the criticism leveled at federal export promotion activity has been triggered by a lack of consistency, not only in the quality of a particular program but in the year-to-year direction. This is allied to a frustration with the tendency of government agencies to replace or overshadow tried and tested programs with innovations, usually associated with the change in administrations.

On the other hand, there is a vast array of materials and services provided by the federal government to help firms increase their export business. The major problem is how these programs, materials and service are being directed and utilized. Our recommendation is that these programs, materials and services be placed at the disposal of the local level, be at a chamber of commerce or a trade organization with active export promotion programs. All too frequently local representatives, be they SBA or USDOC representatives, are spread to thin—too much to do in an over expanded territory with too little time. Chamber international organizations or trade groups could be an extended arm and add that experienced personal confirmation likely to be most effective and beneficial to small exporters. We foresee that a close association with the local USDOC and SBA representative will be necessary to insure the success of such an undertaking as well as satisfy the governmental logistics accountability.

Third and final and closely allied to the second point above is training. Both the USDOC and SBA have training programs for their international representatives including periodic updates. Why couldn't potential local chamber of commerce international representatives and trade association international representatives receive some training at both or either the U.S. DOC and the SBA. It is a fact that the larger majority of chambers and trade associations throughout the U.S. do not have international representatives, but they could have. This seems to us to be an excellent opportunity for public/private sector cooperation. The training need not be as in-depth as that which a regular USDOC or SBA representative would receive, but it does need to be thorough including a sound grounding in what programs, services and materials are available from various government agencies to assist exporters.

We believe that such a training program could build a great rapport and a spirit of cooperation between the public and private sectors on the local level. Consequently, more and more companies would be encouraged to export and capture their fair share of what may result in nearly a 5 trillion dollar worldmarket by 1988.

In closing, we wish to suggest that the underlying structure for any point which we have discussed here today must rest on five major principles:

Keep it simple.
Keep it noncontroversial.
Design it to be implemented easily.
Design it to be implemented quickly.
Remove it from future political pressures.

SEPTEMBER 19, 1983.

Hon. ANDY IRELAND,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN IRELAND: Please accept my thanks and appreciation for allowing us to testify at the Hearing on the Small Business Export Opportunities at the Dunedin City Hall on September 16, 1983.

Enclosed is the transcript of my testimony and the additional materials which we mentioned that we would send you.

Concerning the second and third items in our testimony, I would like to add that you will probably receive some opposition on these two points in the following way:

1. Both U.S.D.O.C. and S.B.A. will probably strenuously oppose training on the basis that it should be left to the private sector. My concern is that federal agencies are better equipped to train others concerning their own programs. This is not adequately done by private sector organizations.

2. Both the U.S.D.O.C. and S.B.A. may hesitate to involve outsiders in international training programs because of inefficiencies that may become apparent through such a program. My feeling again is that this may result in better training and provide a greater dissemination of materials and services from our governmental agencies involved in the promotion of exports.

I commend you for your work and attempts to enhance the position of small American exports in the world marketplace.

If I can be of service, please do not hesitate to call on me.

Sincerely,

W. Cliff Topping,
Executive Director.

Enclosures.

TAMPA BAY
International Trade Council

WHO WE ARE AND WHAT WE DO

W.C. "Cliff" Topping
Executive Director

THE TAMPA BAY INTERNATIONAL TRADE COUNCIL

801 EAST KENNEDY BOULEVARD
P.O. BOX 420
TAMPA, FLORIDA 33601
(813) 228-7777 Ext. 234/235

WHO WE ARE AND WHAT WE DO

PURPOSE

The Tampa Bay International Trade Council, a specialized department of the Greater Tampa Chamber of Commerce, maintains its own membership composed of companies, professional associations and service organizations within the Bay area and Central Florida.

Represented in the Council's membership are manufacturing companies, export and import firms, professional associations, financial institutions, brokerage firms, freight forwarders, steamship agents, port terminal operators, airlines, consultants, department stores, custom house brokers, hotels, insurance and real estate brokers, attorneys, travel agencies, etc. Annual investment fees are $130.00 for individual membership and $150.00 for company membership.

The Tampa Bay International Trade Council is a recipient of the President's "E" Award for an outstanding contribution to the export expansion program of the United States. This national award was presented to the Council by the Honorable Sam M. Gibbons, United States Congressman, on January 12th, 1979.

OBJECTIVES

- To promote international trade, investment and intercultural exchange in the Tampa Bay area
- To offer seminars, conferences and workshops on international business subjects and to organize trade missions abroad
- To provide professional export/import development assistance, marketing and eco-political data on other countries
- To cooperate with State and Federal Commerce Departments in advancing common objectives

MEMBER BENEFITS

We offer personalized assistance and advice on:

- Shipping regulations
- Document preparation procedures
- Export document certification
- Foreign exchange
- Letters of introduction for members traveling abroad
- Marketing and eco-political data on other countries
- U.S. Customs and import regulations
- Trade contacts with buyers and sellers at home and abroad
- Contact with foreign Embassies and Consulates in the U.S. and with the American Embassies and Chambers of Commerce in other countries
- Trade fair/exposition information
- Newsletter
- Seminars, conferences, workshops on international business subjects
- Luncheon programs featuring guest speakers
- Social gatherings to encourage wider personal contact among the members including an annual installation dinner
- Annual Membership Directory which is distributed worldwide

COUNCIL'S STRUCTURE

Task Forces operating within the Council are: Education, Foreign Trade Zone, International Investment, Member Relations, Program, Trade Development, Trade Fairs, Trade Missions, Tourism, Transportation, Legislative and Public Relations. The governing body of the Council is its Executive Committee which is presided over by a Chairman who reports on the Council's activities to the President and Board of Governors of the Greater Tampa Chamber of Commerce. The Council is administered by a full time Executive Director.

All disbursements incurred in the operation of the Council are made in accordance with the approved budget and fiscal policies of the Greater Tampa Chamber of Commerce and its financial records are subject to an annual audit by certified public accountants.

TAMPA BAY
International Trade Council

PURPOSE AND MISSION

It is the purpose of the Tampa Bay International Trade Council to stimulate international trade and investment and to prompt intercultural exchange between the Bay area and countries around the world, leading to the establishment of Tampa Bay as an international trade center. Envisioned in this purpose is an expansion of opportunities for business, industry, tourism, education, and commensurately, the shipping, travel and service industries, as well as a deepening appreciation and enthusiasm across personal, cultural and national boundaries. This purpose, when actualized, will result in additional jobs of increasing variety, create a general improvement of the economy, increase the variety and selection of goods and services, fuel the expansion of facilities, pave the way for capital investment while attracting reverse investment and foster cultural/educational exchange programs.

The purpose then becomes the foundation from which the mission derives its impetus, for it is the mission of the Tampa Bay International Trade Council to responsively and responsibly embody those activities which will have the most valuable impact on the quality and the size of international trade, investment and intercultural exchange. Consequently, a mission which provides the framework for a great number of new and renewed projects for international activity must first indentify those elements which make up the opportunities and challenges of the international trade potential for the Tampa Bay area.

To accomplish this end, the International Trade Council has undertaken the following goals and objectives:

- Promote world-wide trade.
- Encourage foreign capital investment to increase employment opportunities and cash flow potential throughout the Tampa Bay area.
- Promote trade missions and trade fairs in the Tampa Bay area to and from foreign trading partners and potential partners.
- Support and assist in the development of Tampa Bay area cooperation to promote international tourism.
- Encourage the expansion of international passenger and cargo flights and services including multilingual translation and interpretation, information and assistance, international signage and currency exchange facilities.
- Develop and encourage the use of the foreign trade zone as a Tampa Bay area facility.

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- Promote international cruises from the Tampa Bay area as origin/destinations and as a tour route stop.
- Support and cooperate in the development of the Tampa Bay area as a location for international competitive sports.
- Support the Tampa Port Authority's effort to secure general/containerized cargo and to acquire and install adequate container handling equipment.
- Assist in recruiting and establishing specialized general cargoes and scheduled cargo ships for Central and South America as well as other trade areas in the world.
- Cooperate with, support and strengthen the offering of pertinent international trade subjects in the area's higher education curriculum.
- Plan, develop and administer seminars, courses and conferences in cooperation with the U.S. Department of Commerce, the Florida Department of Commerce and our institutions of higher learning in various fields of international business to keep members and the public informed of current trends and priorities in those fields.
- Create, plan and present programs of timely topics of interest to the membership in order for them to adapt and change so that they can remain viable in the ever-changing international marketplace.
- Conduct a census of industries in the Tampa Bay area to document the magnitude and character of existing international trade.
- Cooperate with and encourage financial institutions to educate local merchants to accept payment in foreign currency at fair exchange rates.
- Provide professional export-import information including but not limited to shipping regulations document preparation procedures, export document certification, U.S. Customs and import regulations, and international trade leads.

Task forces have been targeted as the appropriate means to accomplish the mission and to achieve the goals and objectives of the Tampa Bay International Trade Council, thus bringing the trade potential to a reality.

Listed below are the Task Forces and the purpose of each:

Education Task Force

Purpose: Cooperate with and provide advice to all local institutions of higher learning and other organizations in developing viable educational programs to further the goals of international economic development and human intercultural exchange. Plan, develop and administer seminars, courses and conferences in cooperation

TAMPA BAY
International Trade Council

ORGANIZATION AND OPERATION

The Tampa Bay International Trade Council is the primary focal point for the international awareness that is rapidly emerging in the Central West Coast of Florida. Founded in 1949 as the Pan American Commission, it became the Tampa World Trade Council in 1970, adopted as the International Department of the Greater Tampa Chamber of Commerce in 1974, and changed its name to Tampa Bay International Trade Council in 1981 commensurate with its expanded geographical influence.

Through the years the ranks have grown from a handful of internationally involved individuals to a present active membership of more than 200.

Overall, the purpose and mission of the Tampa Bay International Trade Council is to develop international trade and investment for the Tampa Bay area while stimulating the expansion of intercultural exchange. Also, it is the Council's desire to be a unifying force for the developing international community. While trade and banking continue to grow in the area, many top executives yearn for greater unity, for a stronger sense of common purpose. As the "voice of the international business community in the Tampa Bay area," the Council works for this kind of unity and purpose. It seeks creative solutions to issues confronting this international community as the Tampa Bay area becomes the recognized international trade center of Florida's Central West Coast.

The Trade Council's strategy centers around the area's international trade potential. Actions are directed at accomplishing its goals and objectives as these are expressed in the "Purpose and Mission." Consequently, the organizational structure of the Council has been designed to support achievement of those goals and objectives. There is an Executive Committee, elected from the membership, a Chairman, a first Vice-Chairman, a second Vice-Chairman, a Secretary-Treasurer, and a professional staff. Additionally, various Task Forces have been formed to undertake specific projects in support of the "Purpose and Mission." These Task Forces are composed of Council members. Administratively, the Council is managed by a full-time Executive Director, a secretary and other personnel as may be required to carry out the planned activities.

Through the leadership and active support of Trade Council members, a team approach has been created to meet the challenges of a rapidly growing international community and to develop a strong, diverse trade initiative that is vital to the enhancement of a flourishing international trade center.

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with the U.S. Department of Commerce and Florida Department of Commerce on pertinent international subjects for the membership and the public.

Foreign Trade Zone Task Force

Purpose: Promote and support the development and use of a foreign trade zone to serve the Tampa Bay Area.

International Investment Task Force

Purpose: Seek and encourage the promotion of capital investments for the Tampa Bay area from overseas, the relocation of suitable new industries or corporate headquarters or branches, and the stimulation of the Tampa Bay area as an international banking center for commerce and tourism.

Member Relations Task Force

Purpose: Promote and encourage a continuous membership recruitment and sustaining effort; encourage membership participation in the Council's activities; welcome new members and assist the Executive Director in receiving foreign dignitaries, important businessmen and international visitors who call on the Council and the Greater Tampa Chamber of Commerce.

Program Task Force

Purpose: Plan, organize and offer programs on a regular basis to help members keep pace with the rapidly changing international business scene in order that they may quickly adapt and change policy to strengthen their business position internationally and meet the ever-changing demands of human intercultural exchange; plan visits to member companies and social activities for the Council, including the annual dinner and installation of officers which is held during the first week of October.

Trade Development Task Force

Purpose: Promote and continuously support a vital relationship between private enterprise in the Tampa Bay Area and countries worldwide in all matters relating to international trade and commerce; develop policies and initiate programs for Council membership on issues involving export expansion, export administration, customs procedures, government procurement, unfair international trade practices and multilateral trade negotiations.

Trade Fairs Task Force

Purpose: Sponsor and promote the establishment of a successful series of international trade fairs in the Tampa Bay Area.

TAMPA BAY International Trade Council

Trade Missions Task Force

Purpose: Develop, promote and administer, in cooperation with the U.S. Dept. of Commerce and the Florida Dept. of Commerce, international trade missions to and from the Tampa Bay Area in order to stimulate trade and investment.

Tourism Task Force

Purpose: Plan, organize and support the development of tourism to the entire Tampa Bay Area through literature and visitation programs directed toward all of the Americas, Europe, the Middle and Far East; support the development of additional facilities for international travelers, including multilingual personnel, translation services, and foreign exchange facilities.

Transportation Task Force

Purpose: Plan, organize, develop and seek support and cooperation in implementing both short and long range projects which enhance transportation systems affecting the Tampa Bay Area's competitiveness in international trade.

Legislative Task Force

Purpose: Guide the development of Trade Council policy on issues that are primarily political in nature; provide oversight for representing the international policy interests of the Trade Council before city, county, state and federal administrations, legislatures, foreign governments and inter-governmental bodies.

Public Relations Task Force

Purpose: Work with the local media to create community awareness of the value of international trade and to promote programs, seminars, and public functions of the Trade Council to enhance the development of international trade, investment and human intercultural exchange in the Tampa Bay Area.

As evidenced here, an important part of the Trade Council's effort is centered around the development of attitudes and awareness. Indeed, community-wide involvement is desirable and necessary if the mission and goals are to be accomplished. It is equally important to interface and cooperate with other international oriented groups, such as the Convention and Tourist Bureaus, the Transportation Divisions, the Committees of 100, and the Super Task Force as well as state and federal organizations, such as the Florida Council of International Development (FCID), Florida International Agricultural Trade Council (FIATC), the Florida Department of Commerce and the U.S. Department of Commerce where our goals and objectives are mutually related. By engendering and giving such support, we will enhance the success of our efforts as well as the success of Florida as a whole.

TAMPA BAY INTERNATIONAL TRADE COUNCIL

PRIORITY

The priority of the Tampa Bay International Trade Council is to stimulate international trade, investment and prompt inter-cultural exchange.

ACTIONS AND ACCOMPLISHMENTS

To achieve the above-stated priority, the Tampa Bay International Council has:

Continued educational efforts to inform Trade Council members and the public in general about the benefits and intricacies of international business. These efforts include monthly luncheons, topics of which include:

"Mid-East Projects"

"Doing Business with Korea"

"Trade Opportunities with Quebec"

"Exporting in Latin America"

"The Port of Tampa Bay and the Tampa Port Authority"

Joint luncheon with the Suncoast Export Council with guest speaker Lawrence Brady,

"Export Trading Companies Act" with guest speaker William Morris

"The Bremen Ports—a Partner in International Trade"

Joint function with the Propeller Club, guest speaker William Von Raab, Commissioner of Customs

"Panama Expocomer '84: Trade and Investment Opportunities in the Republic of Panama, Central and South America"

Education efforts also include seminars on various international topics such as:

"Trade Opportunities with Mexico"

Utilizing a Foreign Trade Zone

Export Sales Financing, Documentation, and Developing and Export Company (3 part Seminar)

"How to Export to Japan (in cooperation with the Florida Department of Commerce)

"Doing Business with Great Britain and the Federal Republic of Germany"

Export Documentation (½ day Seminar)

Participated in and assisted with the Super Task Force's Trade, Investment and Tourism mission to London, Glasgow and Frankfurt to promote the Tampa Bay area. Largest mission thus far to leave Florida.

Acquired an impressive and highly effective trade booth to showcase the Council and Chamber members products and services.

Participated in trade shows in Panama and Miami displaying member companies' catalogs—highly effective sales and marketing tool.

Produced a professional marketing film to promote the Tampa Bay area. This film along with an in-depth study of the region and what it offers international investors was shown in London and Frankfurt during the Super Task Force mission.

Monitored trade legislation in both the Florida legislature and the U.S. Congress impacting through favorable supportive resolutions of the Caribbean Basin Initiative Act and opposing through resolution and direct communication the "Alien Corporation" bill in the Florida legislature.

Maintained a membership of 190, including additions and deletions from the membership. Have experienced a growth of 37 new companies since January, 1983.

Continued morning tours of member companies to become better acquainted and to understand the scope and diversity of business within the international community.

Produced a newsletter on a different format including activities of the Executive Committee and the Council, listing of new members, trade leads and news of import to international businesses.

Continued to have available computerized trade leads by terminal provided by a grant from the Florida Department of Commerce offering private sector sales opportunities and foreign government bid invitations from more than 70 foreign countries and over 140 foreign cities.

Created an all-new membership packet to foster the image that the Tampa Bay International Trade Council is a growing group of international business leaders seeking talented members and innovative involvement to help the Council make an important impact on the development of international trade and investment in the Tampa Bay area.

Developed a questionnaire for conducting a survey to more adequately determine the needs of trade council members and how we may best meet those needs as well as utilizing the questionnaire for directory purposes.

Applied for membership into the World Trade Centers Association to expand the worldwide trade opportunities for Council members. The Council was accepted in March of 1983.

Continued to maintain a close working relationship with other Tampa Bay area international groups, such as the Sun Coast Export Council, Florida Department of Commerce, U.S. Department of Commerce, and the Chamber of Commerce's Convention and Tourist Bureau, Transportation Divisions and Committees of 100.

Cooperated with the University of South Florida in executing Business Spanish evening courses.

Promoted international trade and investment through news media including radio and television.

Put into action plans for 9 Task Forces to investigate and promote activity in international areas of Transportation, Legislation, Trade Missions, Public Relations, Programs, Education, Investment, Member Relations, Trade Development, and the Foreign Trade Zone. This plan of action was developed to promote membership relations, providing the Council a closer working relationship with the members.

PROPOSALS

To be a liaison with the World Trade Centers Association for World Trade Center opportunities and to work with Taylor/Woodrow towards this end.

Continue to monitor U.S. and State trade legislation.

Compose an Advisory Board with heads of major international entities to assist in pointing the direction this area should take internationally to the Council and the governing body thereof, the Executive Committee.

Continue to offer joint educational international programs with the University of South Florida, the U.S. Department of Commerce, the Florida Department of Commerce, and the University of Florida.

To spearhead trade and investment missions to: Barbados, Mexico, Colombia, and areas of the Far East such as Hong Kong and Japan.

Continue to provide the membership with monthly functions (Luncheons) and to attain more high-caliber speakers for such.

Promote closer participation with the League of Cities, the Foreign Trade Zone, and the up-coming Robotics trade fair in October of 1983.

To conduct a membership drive so as to increase the membership number. To promote increased membership participation.

To continue to provide and improve other educational programs in the form of seminars to the membership and the general public.

INTERNATIONALIZATION FIRMLY ESTABLISHED

(By Steven W. Holub)

For some time, international trade in Florida has been synonymous with Miami, especially to non-Floridians. In recent years, however, the international business community has expanded its search for sites to other Florida cities, and an increasing number are settling on the Bay Area.

Lured by an international airport that is among the most efficient, convenient, and strategically located aviation centers in the world; the seventh largest port in the United States, and three foreign trade zones, foreign businesses are also discovering a determined drive underway by the local business community to capitalize on the benefits offered by international trade. The Tampa Bay International Trade Council is a leading force in this local effort.

Working in close cooperation with the Super Task Force for Internationalizing the Tampa Bay Area, the Trade Council helped to organize a trade, investment and tourism mission of 108 area representatives to London, Glasgow, Edinburgh and Frankfurt. The trade and investment potential from this mission could exceed $90 million and result in nearly 1,000 jobs. Already a reciprocal mission by Frankfurt businessmen has visited the Bay Area.

A number of major receptions were held in honor of visiting dignitaries, officials and businessmen including representatives of Chile, France, Germany and Japan. In addition, representatives from more than 20 other foreign countries—from Chile to the People's Republic of China—visited Tampa Bay for this year. Another joint achievement of the Trade Council and the Super Task Force was the formation of an educational coalition with the University of South Florida to seek solutions to the region's international educational needs. As international business increases, our ability to compete successfully will depend on the quality of education and training we are able to provide.

The Trade Council has also taken a lead role in educating the local international community with a series of monthly luncheons featuring speakers from major U.S. organizations and representatives from foreign countries. Educational efforts also included seminars on topics such as "Doing Business with Korea," "Exporting to Latin America," "How to Export to Japan," "Utilizing a Foreign Trade Zone," and included a three-part series "Export Sales Financing," "Export Documentation" and "Developing an Export Marketing Program."

The Trade Council has purchased a trade booth to represent Tampa Bay at national and international exhibitions. First displayed at World Trade Fair 1982 in Miami, the booth helped generate more than 60 trade leads.

The City of Tampa is also deeply involved in the internationalization of the area, most notably via its planned international conference, Robotech 1983, set for October 2-5. The conference will focus on the practical application and implementation of existing and rapidly emerging automation technologies, and is designed to attract buyers, sellers and users of manufacturing and processing equipment from around the world.

Another key area of concern for the Trade Council and its members is both state and federal legislation, such as the Caribbean Basin Initiative Act and the "Alien Corporation" bill. The most important single piece of legislation affecting internationalization in the Bay Area and throughout Florida is the recently enacted foreign corporate profits tax. This hastily enacted statute threatens years of hard work to promote Tampa Bay to the international marketplace. Early reaction to this ill-conceived legislation has been harsh, both at home and abroad. The London Chamber of Commerce and Industry has advised us that only five executives now plan to visit in October. Originally, about 60 British executives had planned to tour the area as a follow-up to our earlier mission. The Trade Council has taken a firm stand in opposition to this tax, and is in the process of documenting the detrimental affect the tax has had and is expected to have.

At a time when worldwide attention has been focused on Tampa Bay, a strong local commitment to internationalization is vital. Soon we will have a world trade center (built by the Taylor Woodrow Company) and we are confident that many more developments will be forthcoming. The key, of course, is a growing and active membership. Much has been accomplished this past year, and the Trade Council members are responsible. But much more can be done. In fact, more must be done if we are to realize our true potential as an international center of trade. The best way to insure this success is to get involved, and the Trade Council is one of the best methods available.

Steven W. Holub is an account supervisor with Hill and Knowlton, Inc., the world's largest public relations/public affairs counseling firm. He is also chairman of the public relations task force for the Tampa Bay International Trade Council.

Mr. Ireland. Our next witness is the director of the district office of International Trade Administration in Miami, Mr. Ivan Cosimi.

TESTIMONY OF IVAN A. COSIMI, DIRECTOR, MIAMI DISTRICT OFFICE, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Cosimi. Thank you, Mr. Chairman. I am also pleased to have this opportunity to speak to you about what the Department of Commerce district office is responsible for here in the State of Florida.

I will tell you a bit about what we are doing to help develop the greater participation by small business in our community in exporting.

As district director, I am responsible for directing programs and resources of the International Trade Administration deployed in Florida for assisting Florida firms in exporting goods and services through our information and promotion programs and activities.

Our resources consist principally of seven international trade specialists and support staff. Three specialists are located outside of Miami and operate throughout our associate offices here in Clearwater, Jacksonville, and Tallahassee.

And we are in the process of obtaining our management's approval of yet another trade specialist in Orlando to attend to the central territory that has developed in the last few years.

The Miami district office currently works with some 2,000 Florida firms on a 1-on-1 basis to assist them in developing overseas trade opportunities.

The majority of these firms are defined as small businesses; that is, they have less than 250 employees, although the vast majority of these firms actually have less than 100 employees.

In fact, over 50 percent of all manufacturing in the State of Florida has less than nine employees.

Additionally, we estimate that there are a substantial number of small- and medium-size companies in Florida not exporting that could be doing so profitably. Consequently, we believe that the role of small business in expanding Florida exports as well as that of improving our international trade posture is increasing and also must be recognized.

We realize that small businesses need assistance to determine how to begin an export program, what markets to enter, and where to go to find assistance.

The Department of Commerce has published a very useful tool, we think, to provide a step-by-step approach to exporting for small business.

A book called "A Basic Guide for Exporting" describes in common business language what is needed to establish a profitable export trade and where and how to receive assistance, both private sector and Government.

We have a variety of export information products and services that are available to the Florida business community in our export effort.

These services are designed to respond to the expressed needs of small- and medium-size firms that are interested in penetrating and developing overseas markets. The information we provide consists of market data in the following areas:

One, detailed information about individual foreign customers and agents;

Two, lists that identify prospective agents, distributors, and buyers;

Three, specific export leads; and

Four, research studies enabling Florida companies to assess the marketability of Florida products in specific foreign countries.

Some of the specific programs are the World Trade Data Reports, which is essentially individual reports on foreign firms. They describe the commercial activity, management, credit experience, and the commercial standing, size, and reputation. These are prepared by the foreign commercial officers who are posted throughout the world.

We have export mailing lists which are produced from a data base of over 140,000 foreign firms and are also produced by the Foreign Commercial Service.

The export mailing lists are specialized lists that are tailored to the marketing needs of a company and describe potential buyers, agents, or distributors in a particular country.

There is also the Agent Distributor Service which assists in locating agents and distributors abroad. The firm, in effect, provides literature and catalogs to us and we, in turn, through the Foreign Commercial Service, assess local interests in representing a firm's products.

There is the trade opportunity program which delivers some 18,000 current, specific export opportunities to subscribing Florida firms each year.

The leads include foreign government calls for bids, representative offers from foreign firms, and direct sale opportunities to private foreign firms.

The information is available via the TOPS—Trade Opportunity Service.

There is also a new Product Information Service which offers innovators of new products the chance to advertise in U.S. embassy commercial newsletters worldwide.

The firm provides references, photos, and literature describing their new product. The material is then translated into the host country languages and is delivered to embassy commercial contacts.

Also a select number of these products are promoted on Voice of America.

There is also an international research program which service is provided to assist exporters and potential exporters in selected U.S. industry sectors, and others having a need for and interest in overseas marketing information.

These international market research services include market reports prepared overseas by private firms under contract by the Department of Commerce and through our foreign commercial service abroad. These reports are currently also distributed free or are provided at a nominal cost through the National Technical Information Service.

In addition to providing these services directly to Florida firms, much of this information is also made available to the Florida Department of Commerce.

The Bureau of Trade Development of the Department purchases the TOPS program and also disseminates it to some 5,000 firms that have been identified by them as having an interest in exporting as well as to the private sector world trade organizations.

Approximately 95 percent of the 2,000 Florida companies that obtain these services directly from the International Trade Administration, Miami District Office, have fewer than 100 employees.

Both in developing these export information products and services, and in setting user fees for them, we are particularly mindful of the needs of the small company.

The International Trade Administration is striving to meet more effectively Florida companies' needs for export information.

In recent months, we have taken several important steps to increase Florida companies' awareness of and access to export information and services.

We have an automated information transfer system which is being implemented at this moment. In fact, by the end of this year we will have sophisticated computer equipment installed in 36 of our district offices and 37 of our foreign overseas posts. The Miami district office has had this computer capability since May of this year.

Our data transmission equipment has also been installed in all the ITA—International Trade Administration—locations for direct communications here and abroad, and, when fully developed by the end of this year, and expanded to about 120 offices and posts, this system will increase the Department's timeliness and productivity in processing and communicating that information.

This Automated Information Transfer System will, we think, greatly enhance Florida's companies' access to export information.

In addition to facilitating access to the information and services, this will also link us to private-sector, export-related data services.

Continued enhancement of machine capabilities over the coming year will introduce new efficiencies, we think, into the delivery system which are not now possible, and will permit more and new information products to be computer-generated on a more timely basis.

These measures are just the beginning of a new, greater commitment in meeting Florida firms' needs for export information.

A number of overseas promotion activities are also available to small businesses to help establish themselves in foreign markets. We have the trade mission program, which provides a unique opportunity for a small business executive to meet potential agents, distributors, and buyers in countries where the company has no commercial contacts.

We also sponsor what we call industry-organized, government-approved trade missions, and these are groups of business executives organized and led by non-Federal Government organizations such as trade associations and the State of Florida's trade development agencies, as well as chambers of commerce and trade associations.

In Florida, the State Department of Commerce and trade associations will have organized some 15 IOGA trade missions by the end of this year.

Miami District Office trade specialists provide assistance in recruiting participants for these IOGA missions and also provided support through our overseas commercial offices.

Just a couple of other points I would like to make and that is, we have, as a result of combining the foreign commercial services with the district office—we enhanced communications directly with overseas posts—contributed, we think, to a more rapid delivery of information.

We are also, in fiscal year 1984, moving to utilize retired executives. Similar to the Service Corps of Retired Executives, the International Export Support Team and similar organizations will have a year's contract that will be reimbursed for their expenses incurred in providing services.

We think this will enhance the counseling capability of our trade specialists, which has been pointed out by my friend in prior testimony, as an important aspect of using information.

Also, I would like to say that the private sector, in cooperation with the Federal programs here in Florida through the District Export Council, has been an important resource for the small businesses.

A vast majority of these District Export Council Members are experienced international executives and are employed or are owners of essentially small companies. In fact, many DEC members have become role model exporters for small firms who really haven't had the opportunity to explore overseas markets.

In conclusion, I want to make the point of export financing. I think that this continues to be one of the real challenges of small businesses in exploring international markets. I think it was well stated by a previous speaker. I think that the set aside which the Exim will make for small to medium from export financing is welcomed; and is an important step in addressing this issue.

We also think that the Export Trading Co. legislation, as it is being discussed, and as it comes into being, will also provide for the small business company a distinct opportunity for selling their product without being directly involved in the export transaction problems as well as the export financing problems which a company exploring business opportunities overseas must face.

That is all I have to say.

[Mr. Cosimi's prepared statement follows:]

PREPARED STATEMENT OF IVAN A. COSIMI, DIRECTOR, MIAMI DISTRICT OFFICE, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Subcommittee on Export Opportunities and Special Small Business Problems of the House Committee on Small Business, I am Ivan A. Cosimi, Director, Miami District Office, International Trade Administration of the United States Department of Commerce. I am pleased to appear before you and to speak with you about what we are doing to encourage greater participation by Florida's small business community in exporting.

As director of the Miami District Office I am responsible for directing the programs and resources of the International Trade Administration deployed in Florida for assisting Florida firms in exporting goods and services through our information and promotion programs and activities. We believe that these programs and resources can help small businesses overcome some of the inhibitions to getting into exporting. Our resources consist principally of seven international trade specialists and support staff. Three of these trade specialists are located outside of Miami and operate out of our associate offices in Clearwater, Jacksonville and Tallahassee.

The Miami District Office currently works with some 2,000 Florida firms, on a one-to-one basis, to assist them in developing overseas trade opportunities. The majority of these firms are defined as small businesses, i.e. firms with less than 250 employees although the vast majority of these firms actually have less than 100 employees. Additionally we estimate that there are substantial numbers of small and medium size companies, in Florida, not exporting that could be doing so profitably. Consequently, we believe that the role of small business in expanding Florida exports as well as that of improving our international trade posture is increasing and must also be recognized.

We realize that small businesses need assistance to determine how to begin an export program, what markets to enter, and where to go to find assistance. The Department of Commerce has published a very useful tool to provide a step by step approach to exporting for United States small business firms called A Basic Guide for Exporting. The Basic Guide describes in common business language what is needed to establish profitable export trade and where and how to receive assistance, both private sector and governments.

INFORMATION SERVICES

A variety of export information products and services are available to assist the Florida business community in its efforts to export. These services are designed to respond to the expressed needs of small and medium size firms that are interested in penetrating and developing overseas markets. The information we provide consists of market data in the following areas:

1. Detailed information about individual foreign customers and agents;
2. List that identify prospective agents, distributors and buyers;
3. Specific exports leads; and
4. Research studies enabling Florida companies to assess the marketability of Florida products in specific foreign countries.

THE SPECIFIC INFORMATION PROGRAMS

World Trade Reports are individual reports on foreign firms available for $75 per firm. They describe commercial activity, management, credit experience, commercial standing, size and reputation. The overseas posts of ITA's Commercial Services prepare the reports at the request of Florida firms.

Export Mailing Lists are produced from a database of over 140,000 foreign firms prepared by the Foreign Commercial Service ($35 for the first country and $10 for each additional country). The Export Mailing List is a specialized list tailored to the marketing needs of the Florida exporter in terms of country, product and type of contact/firm of interest such as buyer, agent or distributor.

The Agent Distributor Service assists Florida firms in locating agents and distributors abroad for a cost of $90 per market. Firms provide sales literature and catalogs which Commercial Service officers use to identify up to six foreign firms who are interested and qualified to represent the Florida firm's product.

Trade Opportunities Program deliver approximately 18,000 current, specific export opportunities to subscribing Florida firms each year. The leads include foreign government calls for bids, representation offers from private foreign firms, and direct sale opportunities to private foreign firms. The information is available via the TOP Notice Service ($37.50 for 50 leads plus $25 initial set up fee) and the weekly TOP Bulletin ($175/yr).

New Product Information Service offers innovators of new products the chance to advertise in United States embassy commercial newsletters worldwide for a cost of $40. Firms provide references, photos and literature describing their new product. The material is then translated into host country languages and delivered to embassy commercial contacts. Selected products are also advertised on Voice of America Radio.

International Market Research (IMR) services are provided to assist exporters and potential exporters in selected United States industry sectors, and others having a need for and interest in overseas marketing information. IMR services include market reports prepared overseas by private firms under contract to ITA or by FCS posts and are based on research specifications prepared by ITA. These reports are currently distributed free or are provided at a nominal charge through the National Technical Information Service. In addition to providing these services directly to Florida firms, much of this information is also made available to the Florida Department of Commerce. The Bureau of Trade Development of the Department purchases the TOPS program and disseminates it to some 5,000 firms that have been identified as having an interest in exporting as well as to the principal private sector world trade organizations.

SMALL BUSINESS UTILIZATION

Approximately 95 percent of the 2,000 Florida companies that obtain these services directly from ITA Miami District Office have fewer than 100 employees. Both in developing these export information products and services and in setting user fees for them, we are particularly mindful of the needs of the small company.

The International Trade Administration is striving to meet more effectively Florida companies' needs for export information. In recent months we have taken several important steps to increase Florida companies' awareness of and access to export information and services:

The Automated Information Transfer System (AITS) is being implemented rapidly. By the end of this year, we will have sophisticated computer equipment installed in 36 District Offices and 37 Foreign Commercial posts overseas. The Miami District Office has had the computer capability since May of this year.

Data transmission equipment has also been installed in all ITA locations for direct communications here and abroad. When fully developed by the end of 1983, and expanded to about 120 offices and posts, this system will increase ITA's timeliness and productivity in processing and communicating information, AITS will greatly enhance Florida companies' access to export information. In addition to facilitating access to the information and services, AITS will also link to private-sector export-related data services. Continued enhancement of machine capabilities over the coming year will introduce new efficiencies into the delivery system not now possible and will permit more and new information products to be computer generated on a more timely basis.

These measure are just the beginning of a new, greater commitment in meeting Florida firms' needs for export information.

EXPORT PROMOTION ACTIVITIES

A number of overseas promotion activities are available to assist small businesses to establish themselves in foreign markets: The Trade Mission program provides a unique opportunity for a small business executive to meet potential agents, distributors and buyers in countries where the company has no commercial contacts.

We also sponsor Industry-Organized, Government-Approved Trade Missions. These are groups of business executives organized and led by non-Federal Government organizations such as trade associations, the state of Florida's trade development agencies, chambers of commerce and similar groups. In Florida, the state Department of Commerce and trade associations will have organized some 15 IOGA trade missions by the end of this year. The Miami District Office trade specialists provided assistance in recruiting participants for these IOGA missions and also provided support through our overseas commercial officers.

One example of export promotion activities designed specifically to aid small businesses to obtain market exposure and develop contacts overseas at a minimal cost are the Catalog Exhibition and Video Catalog Exhibition Programs. Requiring no expenditure of time or money by a company marketing executive, a firm that has no expertise in exporting can investigate the market for its products in one or more countries at low cost. The vast majority of firms, 85-90 percent of which are small, have taken advantage of this program to gain their initial exposure in an overseas market.

THE COMMERCIAL SERVICES

The new streamlined management structure is one of the tools the U.S. Department of Commerce has put in place to improve customer service to small business exporters. For improved administration and management we have combined the United States District Offices located in 47 major cities with the overseas posts in 66 countries where United States international and economic interests are of major importance.

They now operate under a central management which reports directly to the Under Secretary for International Trade. We feel this has produced economies of scale as well as improved services to our customers, and is contributing to the Department of Commerce's export expansion efforts.

We have also placed a new emphasis on identifying trade opportunities targeted specifically toward small businesses and directed toward increasing the number of small and medium sized businesses to export.

There are other areas in which we have expanded and intensified our efforts to counsel small business exporters. For instance:

The Miami District Office in Florida is working with more than 22 multiplier organizations such as the District Export Council, the World Trade Councils, and other private sector trade organizations such as the Florida Exporters and Importers Association together with the Florida's Department of Commerce Economic and Trade agencies, Chambers of Commerce, and Universities to encourage the development of trade with overseas markets. In all some 1500 individuals participate in these organizations.

To encourage and instruct small amd medium business owners the Miami District Office working with the organizations mentioned above conducts basic export marketing seminars throughout the state in both the metropolitan and non-metropolitan areas. This year over 75 such seminars were held and attended by over 1500 representatives of small and medium sized businesses. These export seminars emphasize topical and current themes important to the small business community. Perhaps the most highly promoted and attended seminar was that of the Export Trading Company legislation held in Miami in Janaury of this year shortly after the passage of this legislation. In all some over 300 persons participated.

To assist small and medium sized businesses sell their products and services to the federal government three congressionally sponsored Federal Procurement Conferences were held this year in Florida. They attracted some 1200 persons associated with small businesses. Of these 600 participated in concurrent export seminars.

A new initiative will involve retired persons in our promotion and counseling activities. In fiscal year 1984 the Miami District Office will institute a program of soliciting voluntary assistance from retired executives with international business experience. These valuable people will expand our professional resources by enabling our District Office Trade Specialists to counsel more small firms and to deliver our trade promotion programs more effectively. As with retired persons serving with the Service Corps of Retired Executives (SCORE), the International Export Support Team and similar organizations assisting our efforts will serve without compensation but will be entitled for reimbursement for expenses incurred in service.

In reference to multiplier organizations I mentioned our Florida District Export Council. They deserve a special note here in this context of assistance to small business. I say this because most of the 50 District Export Council members are persons who own or in one way or the other are involved with small businesses. In fact many DEC members have become role model exporters and as such are instrumental in encouraging and guiding other small export-capable companies in their communities. The Florida DEC is a fine example of what private sector involvement with the Federal trade promotion effort can mean, not to mention involvement of the state of Florida and academia through the same mechanism.

EXPORT FINANCING

Financing is one of the key concerns among small businesses and their efforts to export. A recent survey taken by the Florida Export Council found that the lack of competitive export financing is a major disincentive to increase exports. More must be done to assist the financing of small business exports.

Smaller exporters have special problems in assuring adequate access to credit. They usually are dependent on commercial bank credit lines against which their personal and business assets are pledged. They rarely can raise funds from such sources as commercial paper or captive finance companies. Financial techniques such as acceptances, discounting of drafts and FCIA credit insurance, while helpful, do not expand access to financing because they create a contingent liability against the smaller exporters existing credit line. In particular, small exporters need to bridge the interval between outlays for labor and materials and receipt of final payment for their sales. In international trade these repayment terms can typically stretch out to 180 days which is substantially longer than the 30 days customary in domestic trade.

The Export Trading Company legislation will allow banks to own equity in export trading companies. In many cases, we expect such entities to be designed to offer a one-stop export service for inexperienced small and medium sized businesses. We, therefore, anticipate that many of these financial transaction difficulties experienced by small exporters may be solved for two reasons: (1) export trading companies formed for the express purpose of taking over transactional problems for small exporters will be available throughout Florida and (2) the banking community as a whole will be more aware and take new resolve in facilitating exports.

CONCLUSION

Thank you for inviting me to testify this morning. Let me state the Miami District Office's commitment to assist small business to enter international markets and realize their export potential. I would be pleased to answer your questions.

Mr. IRELAND. We thank you for your comments.

Let me ask you just one question. How do you perceive the use of what you have available by the market that is your territory?

Is the word out? Are there things that have to be done so the community better utilizes what you have available? Or should some of the things be changed?

Mr. COSIMI. I think that is one of the challenges—I think this just about applies to any area of activity—that is communications.

I think it is something that needs to be constantly worked at since we are dealing with organizations and people. That is the challenge. It is something that could always be improved. We certainly see the need to do that on just a continuing basis.

I think we are fortunate here in Florida that we have such excellent leadership at the State level as well as the private level. There are some 14 private sector trade points that have come together to essentially discuss and promote and create a greater awareness of information of programs that are available to the public sector, both the State as well as the Government. But it is something I think needs to be continually looked at.

Mr. **Ireland**. Thank you.

Mr. **Bilirakis**. Mr. Chairman, Mr. Cosimi, I have two stock questions that I am going to roll into one that I am going to ask you, and also Mr. Scott and Mr. Moore later on, so they should be prepared.

How many Florida small businesses that are not currently exporting, do you estimate, could do so profitably, and what would it mean for the economy if we increase the export trade?

Mr. **Cosimi**. Well, our estimate is that some 5,000 companies could possibly develop export business and at least this is what we are attempting to do, is to find where these companies are and to try to assist them on how they might use the information to evaluate whether or not exporting is for them.

Mr. **Bilirakis**. How much in sales would that be? You are talking about 5,000 companies. We would be talking about what in terms of sales?

Mr. **Cosimi**. Well, we figure that there are about 2,500 companies now exporting in Florida.

Mr. **Bilirakis**. What are their sales?

Mr. **Cosimi**. Well, Florida exports were about $5 billion—Florida manufacturing exports. So if they did as well as existing 2,500, I guess you could double exports from Florida.

Mr. **Bilirakis**. Basically, if we go with the figure of every $1 billion in exports means 40,000 jobs, we are talking of doubling that figure to $10 billion. That speaks for itself, doesn't it? What is it? About 400,000 jobs?

Mr. **Cosimi**. That's about twice the manufacturing jobs in the State of Florida today.

Mr. **Ireland**. Thank you very much.

Our next speaker is Don Shapiro of Fantastic Plastics, Inc., Clearwater.

Welcome.

TESTIMONY OF DON SHAPIRO, FANTASTIC PLASTICS, INC.

Mr. **Shapiro**. Thank you, Mr. Chairman.

Mr. **Ireland**. We have been hearing a lot of people talk about how you should be massaged, and now we are particularly anxious to hear from you.

Mr. **Shapiro**. That is exactly right, and I want to thank you for the opportunity to voice my opinion on what has been said.

What has been said, I guess, in fact, would be classified as a small business would be a factor. And there are people within these small businesses that contend to export, and that information needs to be sent out.

My company, does a little over $1 million a year. We have 40 employees, and we don't have anyone who can sit down and worry about exporting, per se. We take care of our regular business and do what exporting we can dig out.

Exporting comes to us, and it probably does to all small manufacturers. It came to us through trade shows. Somebody asks for a shipment to go to Argentina, Colombia, or what-have-you.

This is where most of the people whom I know in the small businesses get involved in exporting, and usually proceed from there and work with an air freight company or jump around trying to find somebody to give us a little bit of advice on how we are going to get paid.

There are various pitfalls that go with exporting.

From there too many of us learn the hard way that it is not that easy. To start out ourselves, that is the way we got into it. We went to a trade show. During one of the trade shows we attended we got some orders from South America to ship some goods and got paid and everything worked fine.

And we started to realize there was a market out there. We started to look around to see where we could get some information. It is myself and two girls in the office, and that is about what "we" is in our company.

So, it just so happened at the time a seminar was being advertised in Tampa at one of the local high schools—I forget who was running it—a 12-week seminar on exporting, and this was excellent for us. The Department of Commerce was involved and there were a few other governmental agencies, and there were bankers, and so on, which was really a very informative thing and it did help a lot. With one exception.

The one thing it didn't help, and one thing we could not get out of this particular seminar, was anything that related to small dollar goods that most of the manufacturers in the State of Florida do make.

We are not truly a high-tech State. We don't have a major caterpillar tractor, that type of manufacturer in the State, and most all of these seminars that I have attended relate to the big shipments and big pieces of merchandise.

They don't relate to the $1 and $2 goods or $5 goods that a lot of companies in this State make, whether it be in a novelty field or whatever it is.

Most all of the export information is based around high-tech and big dollar items, not the small dollar manufacturer, not lightweight shipments that go by air and not by ocean freight.

The only real friends we found in trying to get information, besides the seminar we went to, was some of the airfreight companies. They are very, very helpful.

We did get involved with the Department of Commerce and when they had time they did help us, but they weren't always available with the right answer at the right time for us.

We had a lot of problems. As we got involved into the export market, we would get a lot of requests for samples, and get a lot of requests for literature and information, which we sent around the world.

We got involved with the trade leads, the TOPS, and all the various things that were available as we decided to dig them up, and it took a lot of digging to find just what we needed.

We came into another problem. As we sent goods out, whether it be to the Far East or Australia or other countries, lo and behold, within 3 weeks of sending goods to Japan, I get my same product back, nine pieces of it—I have got several here just for your perusal And where they copy it piece for piece and part for part and back for sale, something that cost me 84 cents to make for 23 cents. Now, what do you do with the 40 people you have got sitting there working?

I can go out and buy this from Taiwan for less than half of what I can make it for. That is a problem.

On top of that problem, they have a most-favored-nation status. The duties and taxes coming in are nil. I guess this has been argued many times over by the automobile industry and everything else, but that is really the plight of a lot of us.

So, what did we do? We went to Jamaica to look for cheap labor and we couldn't put anything together there because costs were prohibitive.

We went from there to Peru to try and keep it at least in this hemisphere without going to Taiwan, and we did work out an arrangement in Peru, and we started training down there.

Again, realize we are a small business and don't have all that kind of money to spend on air fares and that kind of thing to promote our product. They are not necessities. It is a frivolous thing, so we have to be careful on what we spend our dollars.

We did put together a little group down there in Peru, but our Government isn't too friendly with Peru, so therefore we ran into all kinds of stumbling blocks. Even though being assured before we started that that would not be a problem, it was.

What we do is make a plastic product here, send it down there, let them paint it and send it back. We send it down there and could never get it back. It's sitting down there; so we gave up.

We worked with the Embassy down there. We worked with the Department of Commerce. We worked with customs in Miami, and went through all kinds of problems.

There really isn't a lot of help out there. There is a lot of conversation about a lot of help, but there really isn't a lot of help, and I just wonder if there is something that can help the small businessman, the really small businessman, the million dollar businessman, the half-million dollar businessman.

There are more of us out there than there are of the $25 or $50 or $100 million companies, and if you could ever get us into this program where we could comfortably go out and make a living by exporting goods, you have found a trade.

As I pointed out, those are some of the problems. I could go on, really.

[Mr. Shapiro's prepared statement follows:]

PREPARED STATEMENT OF DON SHAPIRO, FANTASTIC PLASTICS, INC.

Mr. Chairman and Gentlemen of the subcommittee, I appreciate very much being offered an opportunity to present the problems I have faced in attempting to enter the exporting market. My name is Don Shapiro with Fantastic Plastics, Inc. of Clearwater, FL. We are manufacturers of hand painted injection molded plastic products. Our method of manufacture is one of low material cost, but with a high labor factor. Most of our items sell on the retail market in the $2-$5 range. The generalized category of our merchandise would be considered novelties. We are a relatively new company, 3 years of age, with sales of a little over one million a year, employing approximately 40 people. Our domestic sales have been growing steadily over the past year and a half.

We have attempted to get into the export market and this brings me to the problems that I have encountered. In one of our earlier attempts to merchandise goods in Australia, we found that in exporting a $1.50 piece of merchandise at importers costs, adding freight and a 33 percent import duty, the cost is now at $2.15. The importer sells it to the wholesaler at $4.30 plus a 32 percent sales tax or $5.67. This merchandise is now put on a retail counter at $11.00 for what sells in this country at $3-$4. We have not even taken into consideration any other differences due to the strength of the dollar.

Another problem we encountered will relate to the sample sheets of merchandise I have submitted for your perusal. When we receive inquiries about our merchandise, we send out samples, catalogs and price sheets. By doing this we subject ourselves to the pirating of our designs and ideas by countries with lower labor rates than ours. These countries who have most favored nation status can then market copies of our goods nearly duty and tax free at prices lower than our own cost.

Our next thoughts were to attempt to find a low labor cost country in Central or South America, so that we might try to compete. I might add at this point gentlemen, it seems a shame there is no protection for a company like mine and that I am forced to look for laborers other than Americans. We visted Jamaica and worked with their Industrial Council and found their costs were prohibitive for various reasons. We then visited Peru and the business climate seemed to be receptive. We received unofficial blessings from minor government officials, so we proceeded to train some local business people on a joint venture basis. The outcome of this, to make it brief, was disastrous. We made a small test shipment of goods into the country to be painted and returned to us, but the Peruvian officials would not release it for return without an extremely high tax.

To top this off in working with a customs agent in Miami, he could not find a classification for our goods as it fell into many different categories. All we really tried to do was send our parts to Peru, have them painted and returned to us.

Gentlemen, we have attended export seminars, read export primers, dug through tons of government publications and made numerous phone calls to the Department of Commerce and trade officials, all to no avail. Therefore, I have come to the conclusion that exporting is for high tech manufacturers or major manufacturers in other fields such as medical supplies, sporting goods and equipment manufacturers. Most workbooks and information sheets that are written on how to export usually refer to tractors, boats and electronic equipment and how to handle them by over the water shipments. There is little written on how to handle the lightweight, inexpensive items such as we make. The most help we have received came from air freight carriers and freight forwarders. In closing, I feel there should be a somewhat expanded "What do I do next?" type primer such as the "Basic Guide to Exporting" published by the U.S. Department of Commerce instead of the multiplicity of publications the various government departments now publish.

Thank you again for this opportunity to submit my views to the committee.

Mr. IRELAND. Let me say we are indebted to you for putting a perspective on this, because what you say in your summary is exactly what we should be doing.

While the intentions are honorable and forthright all along, unless we direct these programs to what the real world is, in your part of the economy, your part of the economy is not going to respond.

All this emphasis we have placed on the Export-Import Bank, but your problem is yet another problem.

Export-Import Bank can offer all kinds of loans and be attentive to some small businesses, but what you need is a little bit different. A look at the real world that you brought us would certainly be helpful in addressing what we can do from a legislative point of view, either by urging or passing legislation. It is a vital story that needs to be heard, but generally is not heard, and I am indebted to you for your comments.

I am sure your local Representative in the U.S. House of Representatives here will be anxious to visit with you a moment about what is going on.

Mr. BILIRAKIS. Don, your 40 employees are Americans, right?

Mr. SHAPIRO. Yes.

Mr. BILIRAKIS. What is interesting, I extrapolated that out and made a comment a few minutes ago of $1 billion equates to 40,000 employees, and $1 million equates to 40 employees. Those figures are pretty darned accurate and it is incumbent upon us to keep that in mind.

Don, as you made your comments that, you know, you say the words but that is not really the way things are. Many people in the audience shook their heads this way, agreeing with you.

I know how very dedicated the chairman is to this subject. I am not sure how much exporting hits his particular district. Phosphates right now aren't really doing anything.

Mr. IRELAND. A little phosphate and a little citrus.

Mr. BILIRAKIS. It is an area of tremendous interest. Use our offices. We aren't magicians, but use our offices.

Mr. SHAPIRO. In my own defense, I have gotten myself associated with Mr. Topping and other associations to see if I can help other people in that level, because I have experienced a lot of bitter experiences. A lot of rewarding ones as well, but it has taken me a long time to dig them out.

Mr. BILIRAKIS. You have been very successful and through an awful lot of perseverance and apparently not so much true with help from the Federal Government.

Mr. SHAPIRO. If you could put all the information in a simple "How To Do," it is really where it is at.

The closest thing that I have found around is Department of Commerce's basics.

Mr. BILIRAKIS. That is from the U.S. Department of Commerce.

Mr. SHAPIRO. Yes; that was expanded—if that was expanded and really done a little bit better, and encompassing a lot more areas, I think it would be the single best help that I have seen around for a while.

Mr. IRELAND. Mr. Shapiro, what will you be doing November 16? The Operation Opportunity——

Mr. SHAPIRO. I will be there.

Mr. IRELAND. If it works out that your personal schedule makes it possible for you to attend, I would consider it a great favor if you would let our committee know your views afterward, because much of what they are trying to do is what you articulated that is needed.

And certainly we would like your comments as well as those from anyone in the audience.

As a matter of fact, call up your Congressman and tell him. We need to have that kind of reaction.

I think a real lesson to us is your point about what is taught at this seminar does not relate to a portion of the market.

Certainly it did relate to things you mentioned, but you will do us a favor in helping us so we can get to the small business development centers, to other programs run by State government and

Federal Government that need a little adjustment, which is important.

Mr. SHAPIRO. That is true. There is one other thing I would like to say, and that is, a lot of us in small businesses really don't have time to read the multitudes of publications that come through the mail.

I think the biggest chore is to reach us, to let us know where there is a seminar, where there is some information. I think that is the biggest job you have got to do—provide that piece of literature that is somewhat encompassing. Nothing can be all encompassing. And to be able to reach us.

I don't read what we classify as junk mail. We just do not have time. You wouldn't believe the piles that come in. What you do is usually get 15 or 20 of the same publication or information about this seminar or that seminar. You just really don't have the time to go through all of that.

I think the biggest chore is to be able to reach us. I really feel this.

Reach the small businessman if you really want to push exporting, because a lot of us have goods to sell.

Mr. IRELAND. It sounds like the farmer who got the visit from the county agent. The county agent said, "You ought to go to this seminar. You ought to read this. You ought to read this."

The old farmer looked at him and said, "I'm farming as good as I know how now." That is what happens to all of our people.

We thank you very much for your comments today.

Mr. SHAPIRO. My pleasure.

Mr. IRELAND. We look forward to your comments.

Mr. SHAPIRO. You will have them.

Mr. IRELAND. Our next witness is Mr. John Nohren, president of Innova, Inc., in Clearwater.

We are pleased to have you here today.

TESTIMONY OF JOHN E. NOHREN, JR., PRESIDENT, INNOVA, INC.

Mr. NOHREN. Mr. Chairman, Congressman Bilirakis, ladies and gentlemen, it is my pleasure to be here. I look at this as an opportunity to appear before your subcommittee and provide testimony on the subject of export promotion and opportunity.

My purpose is to call your attention to opportunities available in the foreign marketplace for the sale or licensing of new American technology and the interrelated problems faced by American high technology research and development-oriented companies who function as prime Government contractors.

Before beginning, however, it should be remembered that when we discuss the use or export of our technology or knowledge base, we also may be speaking of exporting our competitive advantage in the sciences which may, in turn, allow foreign companies to invade our own domestic markets. A simple equation could be stated: Foreign labor plus American technology equals advantaged product.

As per the preceding testimony, we see this problem every day in the fields of electronics, communication equipment, small appliances, et cetera. There are few areas where we remain at the advantage.

This is a concern of national importance as witnessed by the recent American Defense Preparedness Association meeting in Washington on March 15 through 17, the subject of which was "Technology Transfer to Foreign Interests."

Now, as the CEO of Innova, Inc., a defense contractor in Clearwater, Fla., since the company was organized some 13 years ago, Innova has never been without one or more prime contracts from the Department of Defense.

Today we hold five prime contracts, and we are also negotiating the procurement of the sixth.

The monetary value of these contracts exceeds $3 million which will generate a net loss rather than a profit, as the contracts are research and development contracts regulated under the defense acquisition regulations which preclude the recovery of certain real and unavoidable costs inherent in all companies' operations and charged to overhead or G&A expense.

As a result, to return to a profitable posture, for that matter survive, Innova must sell our product which is advanced technology to domestic or foreign interest, and frequently we find the foreign market more aggressive in the search for ways to become more competitive.

Innova develops technology to advance the state of the art of conventional munitions manufacture.

The embodiment usually takes the form of an automated total manufacturing system which we have conceived, engineered, built, and installed in a Government-designated facility.

Such systems have replaced as many as 130 people. In general, we end up with approximately 10 percent of the labor input that was there before we became involved.

We are currently developing a system that will elevate the production of a 7-component item requiring more than a dozen separate inspection operations from 24 per minute to over 90 per minute. And we know we can achieve rates exceeding 200 units per minute. This technology will be licensed overseas as well simply to generate a profit, recover our costs, which we are precluded from doing under the Government contract.

The second field within which Innova has been very active is IR&D, which we are funding ourselves for this development of technology for the treatment of water, removing contaminants and toxic elements, and also the recovery of strategic materials from a variety of waste streams.

Technology which has emanated includes the recovery of chromic acid for the electroplating industry; the separation of radionuclides and the reduction of nuclear waste volume; the destruction of bacteria and synthetic organic chemicals found in water; and the purification of drinking water supplies through the removal of the heavy metals and devitalization of bacteria and destruction of organic chemicals.

As we deal with technology as its principal product, we are primarily interested in licensing our technology or forming joint ventures for the actual production of the physical products based upon proprietary Innova technology. Currently, Innova holds 12 issued patents and has more than a dozen applications pending.

Summarizing our current reported activities, we have licensed our chrome recovery technology in the United States and also European countries, and will continue to look for licensees in the Far East as well.

We are currently in discussions with potential English joint venture partners covering the manufacturing and marketing of both defense related and industrial consumer products based upon our technology.

We are in the discussion stage with German and English companies pertaining to the manufacturing and marketing of our residential water treatment processes.

As a result of our current foreign and domestic military involvement, a proposal is pending from a major French company to acquire a substantial equity interest in our American company.

While products incorporating Innova technology could be manufactured by Innova in the United States and compete favorably in foreign markets by virtue of their uniqueness, the marketing, adaptive, financial, and logistic problems are simply greater than a small U.S. company can cope with readily if we are to reach anything like real market potential; this is a typical scenario.

I believe you will find our Fortune 500 companies also have problems in this regard.

The Japanese dealt with this problem through the use of trading companies which received financial and other support and certainly were not burdened with legal constraints as American companies have been.

I might add that the current administration has taken some positive action in this regard.

What is needed to address this problem for small business are several somewhat specialized American trading companies set up along the lines of the small business investment companies, using essentially private investment capital, aided by investment tax credits and, perhaps, leveraged by a percentage guarantee to banks loaning funds to the trading company for funding exported inventories and extended financing when required at competitive international lending rates.

I would further state that no company can expect to be successful in the export field without contact and knowledge of his potential export market.

This is fairly easily accomplished by means of contact with U.S. embassies and consulates in the targeted countries and through trade missions and trade shows supported by the Department of Commerce and conducted by the commercial attaché or officer and his staff in the specific country.

I might say at this time that these individuals are truly exceptional, in our experience, and do an excellent job at times taking on our domestic bureaucracy which at times they find unsupporting and questioning of their value.

In particular, I would point to Mr. Wilhelm Walter, Commercial Analyst in the American General Consulate in Dusseldorf, who has located licensing and joint venture partners for us, as well as having provided an excellent overview of opportunities, business methods, financial sources, and legal considerations.

Mr. Walter, upon request, also recommended local legal counsel and arranged meetings with local government personnel whom he felt could be helpful.

In general, we have usually found our Embassies to have indepth financial, product, and even character information on companies and, at times, the people with whom we have been in contact.

Similarly, in our Paris Embassy, we have the good fortune of having Mr. Claude Capard and Mr. Roy Dube, who, in conjunction with the U.S. Embassy in Hague, set up and staffed the American Pavillion at Aqua-Tech 1982 in Amsterdam, which we had the privilege of participating in.

The exhibit and preparation could not have been better nor conducted in a more professional manner. They did everything possible to make the exhibit a success for the American exhibitors.

The result was several licensing and trade opportunities for Innova, plus on-the-spot research in market and products.

This past spring I had the pleasure of participating in the Tampa Bay Task Force to England. Again, our Embassy was found to be most helpful. On their own, they had located several licensing prospects which we are continuing to communicate with.

I should state, however, that our shortcoming is the ability to follow up and nurture our leads, even for licensing. Thus, while we may have many foreign trade opportunities, it becomes a management problem or directing the company staff to exploit these opportunities.

Again, a need and opportunity for a specialized small business foreign trade investment company capable of taking over this responsibility exists. Many small and medium-sized companies who could successfully market abroad don't try, being satisfied with our domestic market, and fail to recognize the magnitude of the export markets or how to access this market, or to recognize the problems as well as potential.

They simply don't know where to go to obtain factual information upon which to base decisions and commit funds.

What is needed is a source book that outlines the tactics learned over several decades. While experience is perhaps the best teacher, it is also time consuming and expensive and is certainly left to chance.

The source book would also list relevant government documents, and the several public and private computer banks which may be directly accessed by business or home computers that list products sought.

There are other methods by which the small business can have access opportunities, including TOPS, the Control Data Banks, Technology Catalysts in Arlington, Va., the Divorkovich Organization in Orlando, and others.

A widely held opinion by many knowledgeable people is that licensing and joint ventures with established foreign companies present the best solution currently available to the small American company with technology or a unique product to sell.

In summary, my recommendations to further the interests of the United States and small businesses in the export field would be as follows:

Produce a source book born from the experiences of small companies successful in the export field.

Initiate legislation to permit the creation of small business foreign trade investment trusts providing tax incentives to the investors and low cost trade credits to foreign purchasers, if required, particularly for product-oriented companies.

Initiate legislation altering the DAR's now this FAR's, to permit the small research and development company to make a profit in their most specialized field of invention—developing advanced technology for the Department of Defense and others, but eliminating the need to either become product oriented or to grasp early opportunities to sell their technology to foreign interests. Current regulations precludes the recovery of costs of interest, marketing, life insurance, and most IR&D not previously approved.

It should be recognized that, historically, the majority of scientific advancement and advanced technology has emanated from small companies and lone individuals, scientists, and investors. I advocate enhancing this phenomenon by encouraging the research and development community to concentrate on doing what it does best—advancing technology.

This would be particularly true of defense contractors allowing them to earn a reasonable profit under cost reimbursable research and development contracts, eliminating the illogical exclusions from this contractors actual costs as currently practiced, and required under this Government procurement regulations.

In turn, made profitable, this research and development company should, where possible, license major American companies to exploit their technology and in so doing export physical products, the results of the technology, rather than the technology itself as the small research company today is prone to do.

Under the current prevailing situation, the small research and development company is forced to become physical product and production oriented or to sell its technology to the first prospective customer simply for survival.

The net result is the American people, the American Government, and the creative small business are the losers and foreign competition and our adversaries are the winners. It hardly makes sense to encourage companies like ours to switch from an R&D orientation to a hard commercial product orientation in order to survive. I question 3 years from now who will bring our expertise to the ordinance manufacturing field when we are building and selling consumer products to survive financially, or licensing our technology overseas because foreign interest recognize the competitive value of American technology and the magnitude of the North American market, if penetrated.

Simply stated, technology is America's advantage and significant opportunity to reduce the economic trade deficit with other nations. We should nurture this American ability which, in turn, can solve a myriad of other problems. I would ask you, as Members of Congress, to take the initiative, as it is the law, in my opinion, that needs changing.

[Mr. Nohren's prepared statement follows:]

PREPARED STATEMENT OF JOHN E. NOHREN, JR., PRESIDENT, INNOVA, INC.

Congressman Bilirakis, I appreciate this opportunity to appear before the Subcommittee on Small Business Problems and provide testimony on the subject of export promotion and opportunity.

My purpose is to call your attention to opportunities available in the foreign market place for the sale or licensing of new American technology and the interrelated problems faced by American high technology research and development oriented companies who function as prime defense contractors.

Before beginning however, it should be remembered that when we discuss the sale or export of our technology—or knowledge base—we also may be speaking of exporting our competitive advantage in the sciences which may, in turn, allow foreign companies to invade our own domestic markets. A simple equation could be stated: "Foreign labor plus American technology equals advantaged product."

We see this problem every day in the fields of electronics, communication equipment, small appliances, etc.—these are few product areas where we remain at the advantage.

This is a concern of national importance as witnessed by the recent American Defense Preparedness Association meeting in Washington, DC on March 15-17, the subject of which was "Technology Transfer to Foreign Interests".

I am the President and Chairman of the Board of a high technology defense contractor, Innova, Inc., of Clearwater, Florida. Since the company was organized thirteen years ago, Innova has never been without one or more prime contracts from the Department of Defense. Today Innova hold five prime contracts and is negotiating the sole source procurement of the sixth. The monetary value of the current Innova contracts exceed $3 million which will generate a net loss rather than profit as the contracts are Research & Development contracts regulated under the DARS [1] which precludes the recovery of certain real unavoidable costs.

To return to a profitable posture, for that matter survive, Innova must sell its product, which is advanced technology, to domestic or foreign interest and frequently we find the foreign market more aggressive in the search for ways to become more competitive.

Innova develops technology to advance the state-of-the-art of conventional munition manufacture. The embodiment usually take the form of an automated total manufacturing system which Innova has conceived, engineered, built and installed in a government designated facility.

Such systems have replaced as many as 130 people and a current system under development will elevate the production of a seven component item requiring more than a dozen separate inspection operations from twenty-four per minute; using present state-of-the-art manufacturing technology, to over ninety per minute—and with our new technology we can achieve rates exceeding two hundred units per minute.

The second field within which Innova has been very active in I, R&D is the treatment of water, removing contaminants and toxic elements, and also the recovery of strategic materials from a variety of waste streams. This work has been done primarily with our own funds.

Technology which has eminated includes the recovery of chromic acid for the electroplating industry; the separation of radio nuclides and the reduction of nuclear waste volume; the destruction of bacterias and synthetic organic chemicals found in water supplies; and the purification of drinking water supplies through the removal of the heavy metals and devitalization of bacteria and destruction of organic chemicals.

As Innova deals with technology as its principal product, we are primarily interested in licensing our technology or forming joint ventures for the actual production of the physical products based upon proprietary Innova technology. Currently, Innova holds twelve issued patents with more than a dozen applications pending.

Summarizing our current export activities:

We have licensed our chrome recovery technology in the U.S. and some European countries and will continue to look for licensees in the Far East as well.

We are currently in discussions with potential English joint venture partners covering the manufacturing and marketing of both defense related and industrial/consumer products based upon Innova technology.

We are in the discussion stage with German and English companies pertaining to the manufacturing and marketing of our residential water treatment processes.

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[1] Defense Acquisition Regulations.

As a result of our current foreign and military involvement a proposal is pending from a major French company to acquire a substantial equity interest in our American company.

While products incorporating Innova technology could be manufactured by Innova in the United States and compete favorably in foreign markets by virtue of their uniqueness, the marketing, adaptive, financial and logistic problems are simply greater than small United States companies cope with readily *if they are to reach anything like real market potential.* I believe you will find our Fortune 500 companies also have problems in this regard.

The Japanese deal with this problem through the use of trading companies which received financial and other support and certainly were not burdened with legal constraints as American companies have been. I might add that the current administration has taken some positive action in this regard. What is needed to address this problem for small business are several somewhat specialized American Trading Companies set up along the lines of the SBIC (Small Business Investment Companies) using essentially private investment capital, aided by investment tax credits and, perhaps, leveraged by a percentage guarantee to banks loaning funds to the trading company for funding exported inventories and extended financing when required at competitive international lending rates.

I would further state that no company can expect to be successful in the export field without contact and knowledge of his potential export market. This is fairly easily accomplished by means of contact with U.S. embassies and consulates in the targeted countries and through trade missions and trade shows supported by the Department of Commerce and conducted by the commercial attache' or officer and his staff in the specific country. I might say at this time that these individuals are truly exceptional in our experience and do a tremendous job—at times taking on our domestic bureaucracy which at times they find unsupporting, and questioning of their value. In particular, I would point to Mr. Wilhelm Walter, commercial analyst in the American General Consulate in Dusseldorf, who has located licensing and joint venture partners for Innova as well as having provided an excellent overview of opportunities, business methods, financial sources, and legal considerations. Mr. Walter, upon request, also recommended local legal counsel and arranged meetings with local government personnel whom he felt could be helpful—How was Mr. Walter contacted—simply by going to the Embassy. We have usually found our Embassies to have indepth financial, product, and even character information on companies and, at times, the people with whom we have been in contact.

Similarly, in our Paris Embassy we have the good fortune of having Mr. Claude Capard and Mr. Roy Dube who, in conjunction with the U.S. Embassy in the Hague, set up and staffed the American Pavillion at Aqua-Tech '82 in Amsterdam in which Innova had the privilege of participating. The exhibit and preparation could not have been better nor conducted in a more professional manner. They did everything possible to make the exhibit a success for the American exhibitors. The result was several licensing and trade opportunities for Innova plus on the spot market and product research.

This past spring I had the pleasure of participating in the Tampa Bay Task Force to England. Again, our embassy was found to be most helpful. On their own, they had located several licensing prospects which we are continuing to communicate with.

I should state, however, that our short coming is the ability to follow-up and nurture our leads, even for licensing. Thus, while we have many foreign trade opportunities, it becomes a management problem of directing the company's staff to exploit these opportunities.

Again, a need and opportunity for a specialized small business foreign trade investment company capable of taking over this responsibility exists. Many small and medium sized companies who could successfully market abroad don't try being satisfied with our domestic market and fail to recognize the magnitude of the export markets or how to access this market; recognizing the problem as well as potential. They simply don't know where to go to obtain factual information upon which to base decisions and commit funds. What is needed is a "Source Book" that outlines the tactics learned over several decades. While experience is perhaps the best teacher, it is also time consuming and expensive and is certainly left to change.

The "Source Book" would also list relevant government documents and the several public and private computer banks which may be directly accessed by business or home computers that list products sought, technology sought, names and addresses of the companies making the inquiry. This would include T.O.P.S.—trade opportunities operated by the Department of Commerce and private computer banks operated by the The Control Data Corporation, Minneapolis; Technololgy Catalysts, Inc , Arlington, VA and The Divorkovich Organization of Orlando, Florida.

A widely held opinion by many knowledgable people is that licensing and joint venturing with established foreign companies presents the best solution currently available to the small American company with technology or a unique product to sell.

In summary, my recommendations to further the interests of the United States and small businesses in the export field would be as follows:

(1) Produce a "Source Book" born from the experiences of small companies successful in the export field.

(2) Initiate legislation to permit the creation of "Small Business Foreign Trade Investment Trusts" providing tax incentives to the investors and low cost trade credits to foreign purchasers, if required, particularly for product oriented companies.

(3) Initiate legislation altering the DAR's to permit the small research and development company to profit in their most specialized field of invention—developing advanced technology for the Department of Defense and others, but eliminating the need to either become product oriented or to grasp early opportunities to sell their technology to foreign interests.

It should be recognized that historically the majority of scientific advancement and advanced technology has emanated from small companies and lone individuals, scientists and investors. I advocate enhancing this phenomenon by encouraging the research and development community to concentrate on doing what it does best—advancing technology. This would be particularly true of defense contractors allowing them to earn a reasonable profit under cost reimbursable research and development contracts, eliminating the illogical exclusions from cost, as currently exist and is required.

In turn the profitable research and development company should, where possible, license major American companies to exploit their technology and in so doing export physical products, the results of the technology, rather than the technology itself as the small research company is prone to do today.

Under the currently prevailing situation the small research and development company is forced to become physical product and production oriented or to sell its technology to the first prospective customer simply for survival.

The net result is the American people, the American government, and the creative small business are the losers and foreign competition and our adversaries are the winners. It hardly makes sense to encourage companies like Innova to switch from an R&D orientation to a hard commercial product orientation in order to survive—I question three years from now who will bring our expertise to the ordnance manufacturing field when we are building and selling consumer products to survive financially, or licensing our technology overseas because foreign interest recognize the competitive value of American technology and the magnitude of the North American market, if penetrated. Simply stated, technology is America's advantage and significant opportunity to reduce the economic trade deficit with other nations. We should nurture this American ability which, in turn, can solve a myriad of other problems. I ask that you, as members of Congress, take the initiative as it is the law that requires changing.

Mr. IRELAND. Thank you. You offer an excellent insight as well as some solutions to the very real problems. I guarantee you that looking for solutions is what we need to be doing.

Let me ask you, in your description in which you referred to small businesses foreign trade and investment trust operation, how do you see it differing from the current thrust of export trading company?

Mr. NOHREN. The current export trading companies that we have become involved with, of course, are highly profit-oriented. And the larger you are, the better opportunity you have with them. We look more toward the existing export companies—or have found them to be more interested in the shipment and the transfer of the products rather than actually taking and supplementing our own activities overseas, they are freight handlers rather than marketing companies.

We have technology—we need people who can understand our technology and our product, and not necessarily our technology, as we have the physical products. If we have the opportunity to turn our technology into product form and export them, we would have no need to export the technology itself. We need the expertise to market to walk into my office, as George Martinez has done, and say this is what can be done. Why don't you join our group? We will take the responsibility, and also a percentage of the profits, and put your product into the European or other markets in which your products satisfy demands. We recognize there is an exceptionally large export market for Innova products, but we don't have the time, the financial resources, the personnel to follow it up.

I will be leaving on Sunday to go to England. I will be in England for 3 days and I have a meeting in Paris on Thursday. I will then return to England. I shouldn't be leaving the States to do this. But I really don't have too many other people to call on to perform this function.

If we had the ability to put together a consortium of competing American companies and use the total capabilities that exist within this country instead of having to remain segmented, as we do, for fear of the antitrust laws, or pollution, or all those other fine things that we all have to be so careful with.

But instead, to look and say what can we do, forgetting about some of the laws as they exist, let us take a lesson from what our foreign competitors do. Let's put together the best combination of American technology. And I say small scale because that eliminates Honeywell and Aerojet General and some other very fine companies that operate on a different level; and they are doing it themselves now very effectively in many ways.

Mr. IRELAND. Even they have to compete with Japan. It is very logical of our mentality. We have been trying to sustain competition in America by making sure, with the antitrust laws, that we don't all of a sudden find ourselves in a world where small and even large American companies literally compete against governments, and it is tough.

Some of the thrust to try to sustain that competition was in the Export Trading Company Act which you and I were just talking about. In the years it has been in existence, it has been remarkably unsuccessful, I think. There is probably only one or two that have been organized. Until we realize that the circumstances differ in international trade, we really need some insightful comments like yours in order to start finding something that really will work.

Mr. NOHREN. Well, there is a tremendous opportunity there for every American company. But to access it on a profitable basis is something else.

Mr. IRELAND. We do have to realize, though I think many of us tend to forget, there is still an awful lot we can individually do. A few people realize over 50—what is it 53 or 54 percent of Japanese export from their company? Imports for us, come from firms with less than 250 employees and yet, we think it is all Japan, Inc.

Mr. NOHREN. There was a time in my life, about 20 years ago, when I had Japanese machine tool companies under license to me. I used Japanese products converted to American designs to drive out European market products from a specific segment of our domestic market. And I used Japanese products to establish export market into South America. It was our hope to follow with American products as their economies grew.

What was interesting with the Japanese is you have one source, whether it be Tokyo Sales, Inc. or whom, who was sufficiently knowledgeable over a wide range, and he would have a desk and that resident expert at that desk knew his business. If you wanted that technology to fit into a certain envelope, he would direct you to any one of a number of small companies. And we had a parade of them through our plants, so we made our choices. We have nothing like that here.

Mr. **IRELAND**. That is not understood widely in America.

Mr. **NOHREN**. Another insight I will bring out as I mentioned earlier in my testimony, is with Wilhelm Walter in our Dusseldorf Embassy. He has been trying to put together a program to encourage, in this instance, more technology transfer because the German Government is extremely interested in accessing or acquiring American technology to assist the growth of their own industries. He has been somewhat frustrated in finding companies.

I think there is a tendency at times on the part of American companies to believe that they can't do it; that we are too small; or they don't recognize the opportunities there, or just the pressures of our day-to-day business; and if we are profitable, we may lack some of the incentives toward export much more than the Europeans because we live in the pleasure of the greatest market in the world.

Independent companies that are allowed to exist and make a profit, basically funded for export development through American private investment, helped by tax credits, and perhaps partial loan guarantees would make a success in the export market. I think you would find that the American entrepreneur, rather than the American Government, would figure out how to put together a group of very capable American companies. We have small companies that are very capable with exportable products who would love the opportunity to participate.

I would like to make a couple of other comments, if I could, to earlier testimony.

Mr. **IRELAND**. Go ahead.

Mr. **NOHREN**. One would be pertaining to the SBA. I have had the pleasure of having an SBA loan. I think my company, 10 years ago, was the second or third company that the Exchange National Bank of Tampa had ever supported for an SBA loan. We paid it off. Everything was fine. Never missed a payment.

Subsequently, I have querried bankers relative to the SBA. I have found a lack of interest on the part of our bankers—there are some bankers in Florida who I turned to in this area that I think are excellent commercial bankers. They are few and far between. They really have no great interest in the SBA because banking is fairly easy down here.

To me, if the SBA would publicize the banks who in fact participate with the SBA export program—and there is a lot of competition for our moneys among banks—I think that the SBA would find a lot more participation. Because the individual bankers instead of giving lip service, would know they have the opportunity to attract sizable customers through the SBA programs.

If we knew who those banks were, I think I would be in line with some others to talk with them even though we have a very fine banking relationship with our current banks. And our bank, I would presume, would be one of those that would be the first in line.

The second comment that I would offer would be if the Department of Commerce would retain a directly accessible on-line data bank of all the information sources and types of information available on export for a nominal cost, that small businesses could access, I think many of us today with microcomputers, would make considerable use of such data bank. We know how to use microcomputers and we currently access Dialogue or the Source or other information data banks—and I think we tend to overlook the degree of sophistication that does exist within many small companies to find data, if it isn't too time consuming for them to do so, if they had a single storage bank to go to for their export information search it would be most helpful.

I appreciate the opportunity to be here.

Mr. **Bilirakis**. I just want to apologize to Mr. Nohren for having to leave. I was called away. I appreciate your coming here, sir, and commend your courage for getting involved in this portion of the industry in spite of all the problems. We have learned a lot from you. It is a good indication of grass roots again. Get the grass roots of the people and get the problems to Congress. Thank you.

Mr. **Ireland**. Let me, if I could, leave you with a little food for thought. On two questions, the second one on the Department of Commerce data bank access. I agree with you on the sophistication that is out there in the small businesses that potentially could export. I think, at least in my experience, the sophistication is there. It is not like the other parts of the Government where the sophistication is on the other end of the equation.

The Department of Commerce proudly announced that it had all this information in a data bank several years ago. I said that is wonderful and I would like to access it with my computer terminals in my congressional office, as I do the Library of Congress. I am still waiting. We are ready, you are ready, and Congress is ready. Still, it is a real problem throughout our Government. And I am not here to beat up on the Department of Commerce.

It is shocking how far behind we are in being able to do that. I think the right solution lies with anyone who joins his banker in sending the message to his Congressman about the 10-percent withholding tax on interest and dividends. This would provide a line on those that were not reporting it on their income tax, and who certainly should report it.

The problem is that the information by the Nation's banks already goes to the Federal Government, but its computer capacity, lack of expertise, et cetera, makes it impossible to utilize that information for the very reason that it was provided. So, to comment on your second point, I think we need the sophistication at the home office. We are setting a lot of it out to the entrepreneur.

And perhaps some day you might want to comment to me about the SBA lending. I was a former banker in this market for 25 years. I made a lot of SBA loans and beat my brains out to do it because I was dedicated to it. It occurs to me that it is perhaps time we took a look at two things concerning loans of that kind.

First of all, we set up our American banking system with a dramatic change in the thirties that separated commercial banking from investment banking. And, of course, classic broke up J.P. Morgan into Morgan and Stanley Investment and what ended up as Morgan Guarantee and Trust. As a commercial bank, not just in Florida, the legal emphasis was for just that—short-term lending. Bankers are not long-term lenders in the American banking systems. Loans—capital-type loans—were not their bag. Second, you get so many of them the bank examiner starts calling attention to it.

So, first of all, we are asking the segment of our financial institutions, on the one hand, to stay the heck out of long-term loans; dating back to the depression years they are not what you are in business for.

On the other hand, we go through our SBA programs and say, "You dirty guys, you are not making any loans. We need to unravel that. It is time we call attention to it."

Some enterprising academic stated not too long ago that if you compare the number of SBA loans made to the number of small businesses in America, you will find that Small Business Administration loans have touched less than 1 percent of small businesses in America. And I might add, that the dramatic things about those loans is even if we increased them many, many fold we still have not made a dent in the needs of these small businesses.

So you've touched on something that needs a little attention, and I hope in the next several years we are able to give it that attention.

Thank you for coming.

Mr. IRELAND. Next is Mr. Bob Scott, Florida Bureau of International Trade and Development from Tallahassee, Fla. We are glad to have him and look forward to hearing from him.

TESTIMONY OF BOB SCOTT, CHIEF, FLORIDA BUREAU OF INTERNATIONAL TRADE AND DEVELOPMENT

Mr. SCOTT. As Chief of the Bureau of International Trade and Development and as a representative of Lt. Gov. Wayne Mixson, who also serves as Secretary of Commerce in Florida, I am very pleased to have the opportunity to be a witness at this hearing.

We appreciate your interest in the problems of small businesses and international trade. You and the other members of the Florida congressional delegation have been active supporters of legislation and programs that encourage and assist small business and exports.

International trade has emerged as a dynamic and important part of the economy of Florida. The total value of goods imported and exported through Florida 10 years ago was about $3 billion. Of the total tonnage of waterborne commerce in 1981 through Georgia, Alabama, South Carolina, and Florida, Florida shipments accounted for over 50 percent. Last year, the total exceeded about $17 billion. This was a drop from 1981.

Our trade infrastructure is developing rapidly. We have six foreign trade zones. About 80 Edge Act banks, foreign bank agencies, and foreign bank representative offices, with more approved or pending. We also have about 25 to 30 Florida-based banks with active international departments.

There are 14 deepwater ports and 16 airports with Customs Services available. The number of experienced, qualified exporters, importers, foreign freight forwarders, customs housebrokers, and other service companies which support international trade is also growing.

Florida's trade is currently tied to Latin America and the Caribbean. In 1981, almost 75 percent of Florida exports—those going through Florida ports—went to this area of the world. We want to maintain and expand our role as the trade, financial, and commercial center of America, but we also want to develop our markets in other areas of the world.

Florida's continued development in the high-tech industries is expected to result in growing sales in Western Europe, the Far East, and the Mideast. We also want to develop new markets in Africa and Southeast Asia.

Our exporters range from large multinationals selling throughout the world to the small entrepreneur who is selling in one country. In Florida, as in the rest of the world, a large number of small exporters are facing severe problems due to worldwide recession debt problems—and that is particularly in Latin America—and the overvalued U.S. dollar.

The Florida Department of Commerce has been very active in encouraging and assisting small business to begin or to expand exports. As a matter of fact, most of our programs and our customers are small, medium-sized businesses.

The Bureau of International Trade and Development has one of the most active State programs in the country to promote international trade. Their headquarters is in Tallahassee, staffed by bilingual people with special experience in Europe and Asia. Our Latin America office, based in Coral Gables, concentrates on that area of the world. We also have an office in Stuttgart, West Germany. In Japan, we have contractual arrangements with a subsidiary of a Japanese trading company which assists the bureau in its activities, and Florida companies as well.

Our ongoing programs to assist Florida manufacturers, distributors, exporters, and service companies are extensive. We conduct, cosponsor, and participate in seminars to encourage companies to export and to deal in specific export areas of the world.

We maintain toll-free telephone lines to provide export assistance as well as information on doing business in Florida.

We participate in overseas trade shows and organize Florida trade missions. In 1982, 11 export-related events, in which the department participated, resulted in over 1,100 trade leads and estimated first-year sales of $22 million.

We provide statistical and marketing information to exporters through our trade lead system and cooperate with the World Trade Councils and other international organizations in the State. We currently have about 7,500 Florida companies registered in our program to receive computerized trade leads through our computer system, as well as information on activities, trade fairs, missions, seminars, and what not, that are forthcoming.

We are very pleased that President Reagan recently presented the "E" Star Award to Lt. Gov. Mixson at the Rose Garden in recognition of our continued efforts to assist Florida exporters and potential exporters.

Today, however, the international business community in Florida is facing very severe difficulties. As I said earlier, a large part of Florida's export community is tied to Latin America and the Caribbean. It is our natural trading area. And until recently, it has been a strong and growing market. Florida's dynamic internationalization has, in large part, been a result of the efforts of these small business persons trading throughout the region.

This all ended recently. Massive debt in our traditional markets, an absence of foreign exchange by customers, lack of financing to offer customers, IMF-dictated import restrictions, and the persistently strong dollar have radically changed the rules of the game.

As a result, hundreds of small exporters have been forced out of business. Others are turning to imports to survive. The Florida Exporter-Importer Association estimated that until recently in the Miami or south Florida area there were about 10 exporters for every importer. Soon they say it will be about 50–50, exporters to importers. And incidentally, their membership has been dropping as well.

The State government is being asked by Washington to assume a large role in providing export assistance, and we are meeting the challenge as best we can. Our "E" Star Award attests to Florida's commitment. But the problems besetting world trade today are beyond our ability to correct. Florida cannot help the Latin American economies. We cannot change the value of the dollar or reduce interest rates. In other words, we cannot address the basic financial problems affecting world trade. We must look to Washington for help and leadership. And I am pleased to say this hearing demonstrates that someone in Washington is listening.

There is nothing wrong with Florida's exporters. They have proven they can sell, but today they need new tools with which to do the job. Mainly, we need to offer some type of financing to dollar-poor customers. The lack of exchange is something we must address. Not every firm can deal in barter. They need to have dollars.

For this reason, Governor Graham and Lieutenant Governor Mixson have written letters to appropriate Congressmen and the Florida delegation urging support of your amendment, Congressman Ireland, calling for a small business set aside by the Eximbank.

We also believe the Eximbank needs to effectively market its services to small exporters. And this is probably outside of the ITA and endemic problem with Federal Government agencies and their programs, the lack of awareness, the need to market what they devise.

The lack of the marketing program prevents many firms from being aware of programs. Eximbank should work with State agencies and other local trade promotion organizations to publicize its services. It should be more active in encouraging cooperation from local banks.

Eximbank should provide training to interested State staff; my people, or, as Cliff Topping said, people at local levels, in other organizations, so they could assist in marketing the services and putting together loan packages. This could result in Eximbank being able to reduce costs and make it financially feasible to handle more loans and smaller transactions.

The administration and Congress should reach agreement on the IMF authorization bill. Many countries, including several in Latin America, need continued and, in fact, increased support from the IMF in order to meet debt service requirements and recover from low prices and demands for their products. These countries are major importers of U.S. products and need time to recover.

Other actions we would like to see Washington take include expanding the Small Business Export Development Assistance Matching Fund program. Many cities, economic development groups, regional groups, world trade councils, chamber of commerce, and other groups are becoming more interested in assisting their members in marketing overseas. But they need funding assistance to get this started.

We would like to see more cooperation with State development agencies. Here in Florida, we enjoy a very good relationship with our ICA district office. And I think we work together rather well. I don't know if that is the same all over the country, and there are more players getting into the international trade business in Washington. We would like to hear from some of them on a regular basis as well.

Of course, we would like to see some partial or full funding for State programs, especially those that are replacing Federal export promotion and assistance programs.

This was brought up, but I would like to reemphasize it, the assistance in training of State and local staff. There are so many resources in Washington for training people. Each agency has training programs, so it would be so easy to be able to factor in State government people and local city chamber people into these programs. And I am pleased that Mr. Cosimi and I have begun this in our own way, as best we can, to get our people worked into his regional training programs. It is something I think should be institutionalized.

We also suggest the expanding of assistance and facilities at U.S. Embassies and consulates for visiting U.S. businesses, maybe small display areas, temporary office space, some secretarial assistance with the use of meeting rooms.

I think since the FCS [Foreign Commercial Service] has been formed and taken over some of the responsibilities of providing assistance to business, that segment of embassy operation has improved dramatically over the case of 10 years ago of extremely spotty. I think for that the FCS should be congratulated and encouraged to continue its good efforts in this area.

The Customs Bureau and Export Administration needs to administer Export Control and Operation Exodus with a reasonable attitude. We understand the need to stop the transfer of technology to certain countries, but also need to look carefully at what is available from our competitors. Customs and Export Control need to communicate effectively so as to prevent and resolve problems without detentions and seizures. Better staffing and training of Export Control and Customs seems to be necessary.

No one wants to see world trade recover more than Florida. We depend on it and our regional trading partners depend on it. You can count on us to do our share and more. We are working with our Caribbean Basin trading partners to insure they receive maximum benefits from the Caribbean Basin Initiative. We are working with local organizations and firms on their overseas programs, but we can't do it alone. Our international business community needs your help and support.

Thank you very much.

Mr. IRELAND. Thank you, Bob. We are pleased to have those comments. For those who are not aware, Bob made a comment halfway through that he didn't know what was going on in other States, and that Florida organizations and the Florida government have made some programs. The truth of the matter is that Florida is leading the pack. And I am proud of the "E" Award that all of you won this spring, and also of the fact that you are leading the way in a lot of these things. Hopefully the message will get through.

Let me ask you, do you recall the comment by Mr. Shapiro about the content of some of our seminars? Do you think there is something we are missing and can a change be made to include his type of small business?

Mr. SCOTT. I think it is very definitely true. We participated, I think, last year as speakers in 54 seminars. There are a lot of seminars. And he may have picked one that wasn't quite right for him. The seminars are organized—we try to organize them on different levels. The basic exporting seminar for the person just getting started, leading up to more advanced particular products, particular country focuses. So I think it is something we have to keep in mind and maybe the success stories—every seminar program you try to get one success story to act as a model, or role model as encouragers. And maybe we have to be sure that the people we ask to be the role models can relate to the audience. It is something we have to watch.

Mr. IRELAND. Congressman.

Mr. BILIRAKIS. Just repeating the previous question, I asked Mr. Cosimi about the number of Florida small businesses not currently exporting that you feel could do so profitably, and how, and what it would do for the Florida economy if we increased our export trade.

Mr. SCOTT. We all use about the same figures, and I certainly agree. I would like to make one comment. Right now, in short term, I think we have to think about saving as many of our current exporters that we can, in addition to looking to bringing new ones in. It is these people that we hear from a great deal. We are hearing these hearings up in Tampa but there are a lot of small exporters in south Florida that really need some immediate assistance.

We have got to think about our people and what we have got and expanding on that basis.

Mr. BILIRAKIS. You said in your remarks there are over 7,500 Florida companies that are registered in the program.

Mr. SCOTT. Yes.

Mr. BILIRAKIS. Apparently over 2,500 are exporters. Why aren't the other 5,000?

Mr. SCOTT. Well, some of these companies are service organizations as well who, in turn, deal with exporters. We find that we send out a lot of trade leads—we sent out 121,000 pieces of mail the last fiscal year, and when we go back and check on them, we find a lot of companies in enthusiasm sign up for the program, but in practice, don't answer the mail and don't act on this. So there are two sides to this thing.

If America's export business is to grow in numbers and prosperity and make its contribution, the Government has to do its part in providing assistance. But the horse has got to drink from the trough, too. A number of occasions we have been contacted by European companies and people from overseas saying, "Gee, we are trying to get a hold of this company. They never answer our mail. We want to do business with them," and we have to get on the phone and say, you know, "Please answer your mail. These people are really interested." And maybe they will and maybe they won't.

As I said, we send out a lot of trade leads and those companies that are serious and realize the potential and act on them do some business. A lot of them don't.

Mr. BILIRAKIS. Thank you.

Mr. IRELAND. Thank you, Bob. I think we shouldn't allow the record to pass up some emphasis of what you said that part of the problem was the national economy and interest rates. I will lean to my colleague here to make any comments he wants, but unless we can control our spending we are going to have an interest rate problem on the national scene. I think that is going to be the kind of thing that can only be done by people at the grassroots. I think that Congress needs to hear that message.

Mr. BILIRAKIS. Yes, Congressman Ireland, considering we usually vote alike on these appropriations bills that are all budget busters, I am sure you know that I agree with your comments there.

Mr. IRELAND. Maybe we will get those rates down.

Mr. SCOTT. I hope so.

Mr. IRELAND. Thank you. We appreciate your coming.

Mr. LeCours, you are on next. We appreciate your patience. If you will tailor your comments to those solutions that you were telling me on the plane this morning, I will be indebted to you. We will put 100 percent of your testimony into the record and you can pick up wherever you want and emphasize the things you want.

We have before us now Mr. Philip LeCours, president of Camex International, Inc., from Miami, Fla.

TESTIMONY OF PHILIP LeCOURS, PRESIDENT, CAMEX INTERNATIONAL, INC.

Mr. LECOURS. First, we at Camex International appreciate the opportunity to expose our views on the strengthening of U.S. firms, especially small business concerns in their ability to market their products on an international basis.

We will try to give a detailed analysis of the problems that we have encountered in meeting our export objectives with corresponding solutions. In common, yes, we have participated in various seminars regarding exporting. Yes, they are of a general nature. Yes, we have grassroots ideas. Yes, we have been oversold on some ideas that don't work. Yes, we receive the trade leads that the Department of Commerce kindly sends out on a weekly basis.

We received a lot of leads from Nigeria wishing to purchase. These are serious businessmen who want to purchase from us.

We spent good money in postage in sending the Nigerians catalogs and other pieces of literature, but we stopped responding to them. Why? They want credit. We cannot give them credit. If we could give them credit then, yes, those leads would be workable and we could attend a lot of them. So maybe that is one of the areas, of course, that we will tailor in our presentation here.

Our firm was founded in 1974. Originally we acted as an export management company. The export management company has a limited function, which is to increase demand for a given product by marketing efforts and to handle inquiries from import countries to the manufacturer.

After a while, we decided to expand, and we have evolved into what we would like to classify as a trading company not, of course, to the extent of Sumitom or any of the other large Japanese trading firms.

A trading company differs from an export management company in that it may provide export management services but it expands its activities based on inquiries for products or material that it may not, at the time, have an export management agreement and have a source for a manufacturer of the given product.

What we do is try to convince the manufacturers that don't want to go into export by themselves, to go through companies like ours.

Through the years and through the efforts of what we call our bid department, we have established sales in far away countries like Bangladesh, Qatar, Thailand, Malaysia, Syria, and other Third World countries.

The trade leads arise from direct referrals: Florida Commerce Department Trade Missions. We have participated in many of them. Subscription to the TOP of the U.S. Department of Commerce, subscription to the United Nations Development Forum and other publications. We also mail our own catalogs and promotional letters.

The first problem we have encountered is the U.S. Department of Commerce's publication TOPS. To substantiate what we are about to present, we have brought in, and we expose it to this distinguished panel for their use, samples of the problem areas that we have encountered, and I bring one now. We subscribe to TOP bulletin. We subscribe to a special fast service that is provided for an extra fee, which is well earned because you get it sometimes a week before the bulletin comes in.

I am going to bring a case in point. The TOP issue of August 29 was received in our office on August 31. A notice came up from our Embassy in Greece. The date of the announcement was August 11. The Government of Greece wanted, or was floating a tender for, anesthesia apparatus. The bid deadline was September 22.

In this case, we were only allowed 22 days to request the documents, prepare the quotation, arrange for a bid bond, prepare necessary certifications, obtain catalogs, and deliver the bid in Greece.

In this particular instance, with the help of the American Embassy in Greece, whom we contacted, we obtained the bid documents expeditiously. Based on the payment conditions, we declined to participate. But had it not been because we contacted the Embassy by telex, we wouldn't have had the documents on time to send it on the deadline of September 22.

In other words, whatever amount of money we would have spent on it was lost, because there was a timing element not taken care of.

In that particular instance, yes, the American Embassy was most helpful. We have had some good service from some of our Embassies. However, I would like to mention that about 3 months ago, on a bid in the Central African Republic that was published in the TOP, we requested the same type of assistance from the American Embassy in Bangi. We sent a telex, we sent two night letters, and we sent a full cable. They did not even acknowledge receipt of that. So what is the purpose of our commercial attaché there?

We propose, and we come forward with a solution, that the commercial attachés in all foreign posts obtain bid documents on all tenders whose cost is $50 or less and that appear published in the "TOP" so that the American firms can obtain these packages from a clearinghouse in Washington without the delay of having them air mailed which may take over 2 weeks. This would also, and this has happened, circumvent intentional delays that may occur to insure that U.S. firms do not compete.

Furthermore, we propose that bid documents on projects financed in whole or in part by the United States be subject to a bid deadline of 2 months after the document package is available in the United States and advertised in the "TOP" or in the AID Financed Export Opportunities publication.

We would also encourage a program whereby, on a cost basis, an exporter can prevail on the U.S. Embassy to obtain a bid package and send it via courier express to the exporter in the United States.

The problem area that we are facing now is our No. 2. I would just outline the difficulties that perhaps small manufacturers encounter in seeking export markets: (1) The expense of promotion which may result in little or no business after committing funds; (2) the time resource availability; (3) dealing with banks and letters of credit, dealing with freight forwarders and export documentation.

Perhaps in the locale of that small manufacturer, the bankers do not have the sophistication of the international trade.

(4) Variation of U.S. business norms. That is one of the problems that faced one of the prior businessmen that came before this panel; (5) the lack of understanding of legalese in the documentation; (6) the uncertainty as to accurately projecting costs for freight and insurance; (7) the lack of understanding of strict preparation of the form of the offer; (8) the inability to expedite bid bonds around the world within a 3- to 5-day period; (9) licensing and permit knowledge of the importing country.

There exist for the small exporter, various constraints. However, we believe that it is important to know that the weakness of the manufacturer happens to be the strength of the exporter. The small exporter may lack the following:

The lack of exacting knowledge of a given product since they deal with so many different industries.

The lack of knowledge of the small manufacturer who produces a given product since the small manufacturer has a limited advertising budget.

The lack of time in preparing a quotation when a manufacturer has to be sourced since there is a bid deadline.

A case in point here: Through the years, in participating in medical equipment bids, we have one product that is common to all areas of the world, which are urinary incontinence devices. We have been offering products for 3 or 4 years that were manufactured by top firms, but we were not getting any orders because of foreign competition.

Through a trade association meeting, we met a small manufacturer in Tennessee that manufactures this urinary incontinence device. He could not reach the area that we were working with, so we ran into an association with him and, with no marketing cost to him, he is selling through our company. So, in other words, our export company is his international department with absolutely no cost to him.

The solution we propose in order to try to alleviate the situation is that small exporters and small manufacturers be encouraged to assist one another in promoting export opportunities, since they complement strengths and weaknesses particularly well. This is the concept of the Japanese trading companies. While we do not believe that all that is Japanese, relating to business management philosophy, must be accepted, it would be foolhardy to excise from our analysis policies followed by a nation that is totally dependent on exports for their economic well-being.

This program of self-help for the small manufacturer/exporter should be done by fostering:

(1) The founding of a national trade association with the goal of fostering cooperation and assistance between its members for the purpose of increasing exports as its primary mission.

(2) The preparation of a publication, on a yearly basis, that will identify manufacturers and their products as well as exporters and their expertise.

Problem area No. 3 falls into an area that might not be encountered by those that try to export to the private sector. However, it must be understood by this panel that outside of the United States the areas of consumption are more in the hands of Government than in the hands of private industry or private sector. The Government is the one that has the purse strings as far as money is concerned.

In our particular instance of dealing with medical equipment and supplies, 90 percent of the consumption in foreign countries is in the hands of the Government because of socialized medicine or welfare programs.

To participate in international bids, we are frequently requested to place bid and performance bonds. At given points in time, we may have the need to place bid bonds when our line of credit is occupied by other bid bonds that have not expired, and we are unable to issue a bid bond through our regular channels.

We would like to mention here that we have never forfeited a bond. In other words, we are not going to complain about a past experience about a bond being forfeited. However, the bonds in this country are obtained through insurance companies, bonding companies, et cetera. When you go overseas, the American insurance companies have no participation in those, so you have to go through a bank and obtain a standby letter of credit.

A standby letter of credit might be just a piece of paper but still is affecting or taxing your line of credit with the bank. So you have to budget it very consciously, otherwise you overextend yourself and you find that these standby letters of credit might be open for 180 days. Assume the bid was opened yesterday and you stand no chance because your bid was No. 10 and No. 11 in the listing, still we cannot use those moneys to open another letter of credit as standby bid bond in another country until 180 days from now.

A case in point. We recently had to select, out of 10 bids which had already been prepared, after a lot of work and hours were put into it and we had to select which ones to present since we could not issue bid bonds for all of them.

The proposed solution is as follows: We believe it would be beneficial if, through the Small Business Administration, a program, much like the program aiding small contractors on construction projects, be initiated for small business exporters to provide them with bid bonds to participate in international bids once a firm's reputation and ability to complete a project is established.

Furthermore, that U.S. firms that are registered in this program be excepted from posting bid bonds in tenders funded by the Agency for International Development, and that specific penalties be set forth in case of noncompliance in any particular project.

Problem area No. 4. If it pleases this panel, I would like to read directly from our testimony because it affects the insurance of export receivables, and inefficiencies of the Foreign Credit Insurance Association.

Today, no effective method of insuring export receivables, at a reasonable cost, exists. Supposedly, the Foreign Credit Insurance Association, in conjunction with the Eximbank, provides for insurance of receivables, both for commercial and political risks. Our direct experience indicates that the coverage provided by the FCIA and Eximbank is highly touted at all export seminars.

In those seminars, yes, FCIA is highly touted. You have no problem with your receivables. FCIA is right there. They will insure up to 80 percent of the commercial risk and 90 percent of the political risk. I will try to expose what the real truth is. It is worth the equivalent of having no coverage whatsoever. The major flaws of FICA coverage are:

One, the policy is not available to the majority of small business. It was denied to us for the first 5 years of the company. During this period, we were advised to seek coverage under the policy our bank had. The bank would insure specific transactions at a higher premium to cover its paperwork. The bank also had the final decision whether it wanted to insure a transaction or not. We found that the bank even had stricter guidelines to insure us than the normal requirements of the policy.

Two, after coverage was finally granted to us, directly from FCIA, we found it to be progressively expensive at a rate higher than the increase in normal operating costs. In 1982, the premium charged was 45 cents per $100—I have the evidence here—of gross invoice value. In 1983, 1 year after, the cost was 75 cents per $100 of gross invoice value. Ladies and gentlemen, this represents a 67-percent increase in cost over a 1-year period.

Three, we could well believe that the policy is restricted to firms that have a good record of performance. We can also reason that higher costs represent the reality of doing business abroad. However, the FCIA coverage is also limited by geographical area to countries that are buoyant with surplus foreign credit—in essence, where you do not need it. As of August 1, 1983, out of 33 countries in the American Continent, only 8 countries—Bahamas, Barbados, Canada, Mexico, Netherland Antilles, Paraguay, Trinidad/Tobago, and Uruguay—did not have limitations restricting the FCIA coverage.

They have the classical umbrella. They give it to you when the sun shines and take it away when it rains.

Four, finally, we would like to point out that the major weakness within the FCIA system of coverage is its ineffectiveness to assist the businessperson once a claim is filed. We refused to renew our coverage after the following case occurred. And this is why we mention this here because we don't want others to fall into the same pitfalls that we fell in.

We had been exporting medical supplies to a governmental agency in Costa Rica since 1981. Our operations were on sight draft basis after competing in international bids, which required bid bonds and performance bonds. Our coverage for that account, under FCIA, was $90,000. Due to foreign exchange problems, the receivable fell in arrears. Prior to the foreign exchange shortage, our receivables from that account were collected on a timely basis.

On June 10, 1982, we had a receivable, in arrears, of $91,300—roughly, at that time, one-fifth of our net worth. We, therefore, in order to alleviate our cash-flow situation, presented a claim to FCIA. The claim was acknowledged and received by FCIA on June 29, 1982. FCIA indicated that it was forwarding the claim to Eximbank since it was not of a commercial nature but rather based on "political risk." The factor contributing to the delinquency was foreign exchange shortage, not default in payment. We could have collected the receivable in "colones"—Costa Rican currency—but would have been unable to convert it into dollars.

On September 13, 1982, Eximbank informed us that the claim was not covered under political risk. In their opinion, in Costa Rica there was a parallel market for conversion of national currency into U.S. dollars.

To me, the word parallel is a euphemism for black market.

In other words, through normal financial channels, they agreed the customer could not obtain foreign exchange; however, they advised us that, since there was an opportunity to obtain foreign exchange in this parallel market, political risk coverage could not be granted unless the customer acknowledged, directly in writing, that it had tried to avail itself of the parallel market and was unable to do so.

With that acknowledgment in writing, they would then submit our claim for further consideration.

We were unable to convince our customer to write such a letter. Remember, we are dealing with a governmental agency and governmental agencies do not patronize parallel markets.

Finally, on November 15, 1982, we were informed that political coverage would not cover the claim and it was being returned to the FCIA for commercial risk coverage. On January 26, 1983, more than 1 year after establishment of the receivable on our books, FCIA informed us that they had begun to work the claim under commercial coverage.

On February 24, 1983, we received a request for additional documentation, which consequently had been sent in with our original claim. On April 1, 1983, we were informed by FCIA that it had approved for payment $6,475.80 of the $90,000 claim filed. On April 13, 1983, we received a check for $5,245.40 which was the net amount after deductions stipulated in the policy of the $6,475.80 approved.

Concurrent with our claim process, and in exasperation, on February 1983, we contacted the Miami Office of the U.S. Department of Commerce. We solicited from Mr. Douglas Voigt, the International Trade Specialist assigned to our firm, assistance in this matter. With his assistance, the information was passed on to the American Embassy in Costa Rica. Through joint efforts of our sales representatives in San Jose, and the American Embassy, on April 11, 1983, we started receiving payments directly from our customer. Ironically, we received part payment on invoices that had been settled by the FCIA. And we refunded this money to the FCIA.

And today we have a small balance open and have netted a settlement from FCIA of $884.04. We would like to note that from January 26, 1983, to April 11, 1983, when we began receiving payments directly from our customer, FCIA was still fiddling as to whether the claim was covered under political risk or commercial risk for the open amount in question.

Note: 307 days in claim administration process, plus 180 days receivable in arrears before the claim was filed, less 30-day terms, equals 457 days. Ladies and gentlemen, it took more than 1 year, and still a substantial portion of the receivable had not been collected or settled by FCIA.

Proposed solution. We propose the following: (a) The realization by government that the FCIA policies are not a panacea for export receivable problems. That this institution acts mainly as a fair weather friend in export markets where it is not needed.

(b) That alternative sources of protection for exporters be studied in areas where the FCIA coverage is nonexistent.

(c) That a program to aid the small exporter starting out in business be studied.

(d) That for firms with coverage, who file a claim, aid much like the Federal disaster area programs, where funds are available immediately in the form of low interest loans, be instituted to aid the small exporter through the time-consuming process of claim administration.

This is what we are asking here. Remember, that we were dealing with one-third of our net receivables. Someone might have asked, why did you lend the Government of Costa Rica $90,000? Because FCIA told us you can sell them up to $90,000. We are going to insure you for $90,000.

The last problem area I would like to address here has to do with taxation. Because of Mexico's and Venezuela's economic situation, on which because of a debt moratorium in the payment of foreign debt to their private enterprises, this action has imposed an inequity on many small business exporters with regards to taxation. Here we come with a case in point for our problem area number five.

At inception, when turnovers of receivables was 30 to 60 days, we chose the accrual method of accounting. It was simpler to maintain and allowed us to collect prior to the payment of our tax obligation to IRS, since revenue was recognized at time of shipment.

Currently, receivable periods have extended well over 60 days. And, in some cases, over 1 year. Remember the case we had against the Costa Rican Government. Even though income tax regulations allow taxpayers to request changes in accounting method from accrual based on a business reason, the Commissioner of IRS has the power to reject the petition at his sole discretion.

The current tax literature indicates that the IRS has been frowning on changes in accounting methods. Failure to have the ability to change accounting methods result in having to pay income tax on sales that are not presently collectible, since collectibles have been merely prolonged rather than voided. This is abuse of the tax concept of accounting which looks more toward the ability of the taxpayer to pay rather than when an increase in net worth has occurred. It is like taxing an individual on stocks he owns which have increased in price on the market and that have not yet been sold and turned into cash.

The proposed solution that we have is that we would welcome a relief from this inequity by providing a once-in-a-lifetime election to switch from the current method to the installment method used by dealers in personal property that sell merchandise under the installment plan. Under this method of accounting, sales revenues and related costs are deferred until the point of collection. Revenues and costs are then brought into income at the time collection occurs on a proportional basis that the amount collected bears to the total receivable.

Note that taxation is merely deferred and not eliminated.

I want to thank you at this point for your attention, and, again, for inviting us to expose our views on the problem areas we believe are common to all of us who are in the export market.

[Mr. LeCours' prepared statement, with attachments, follows:]

PREPARED STATEMENT OF PHILIP LECOURS, PRESIDENT, CAMEX INTERNATIONAL, INC.

Gentlemen: We, at Camex International, Inc., appreciate the opportunity to expose our views on the strengthening of U.S. firms, specially small business concerns, in their ability to market their products on an international basis.

Our presentation will begin by a brief resume of activities, firm background and expertise. Further we will present a detailed analysis of problems encountered in meeting our export objectives with corresponding solutions. These solutions we feel are effective in overcoming the difficulties posed. In our approach to developing solutions, we have adopted an attitude that government should limit its activities in the private enterprise system to the point that it provides for its constituents equal footing in world markets, that is, to the extent that other countries subsidize and assist businessmen elsewhere.

FIRM'S BACKGROUND AND HISTORY

Camex International, Inc. was founded in 1974 for the express purpose of international trade. At inception, the policy of the company was to act as an export management company for U.S. manufacturers. An export management company provides marketing services for manufacturers overseas. The primary function is to increase demand for given products by marketing efforts and to handle inquiries from importing countries to the manufacturer. Once orders are placed, then the export management company completes the transaction by handling shipping, letters of credit collection, and follow-up. Today we have evolved into what we would classify as a trading company. A trading company differs from an export management company in that it may provide export management services but, it expands its activities based on inquiries for products of material that it may not, at the time, have an export management agreement and have to source for a manufacturer of the given product. Additionally, we have a bid department that is constantly searching for international procurements by governmental bodies under the auspices of the world bank, U.S. A.I.D., International Development Bank and others.

The firm has a corporate structure, eight employees, and is located in Miami, Florida. Based on its proximity with Central and South America it exports to these regions. Additionally, through the efforts of the bid department, it has established sales in Bangladesh, Qatar, Thailand, Malaysia, Tunisia, Syria and other Third World countries.

The Company has a wholly owned corporation that has elected Domestic International Sales Corporation (D.I.S.C.) status for Federal income tax purposes.

The nature of the business requires extensive banking lines of credit for the purchase of material and the issuance of bid bonds and/or performance bonds on the various projects.

Trade leads arise from direct referrals, Florida Commerce Department, trade missions, subscription to the "TOP" of the U.S. Department of Commerce, subscriptions to the United Nations Development Forum and other publications. Mailing of catalogs and promotional letters are also undertaken.

The attached corporate profile explains educational background of each individual in an executive capacity and other pertinent business information.

CORPORATE PROFILE

Exporters of medical equipment, supplies, pharmaceuticals, and hospital consumables. Appointed purchasing agents for foreign governments. Export management distributors for manufacturers. Official suppliers, under contracts for foreign aid programs sponsored and financed by the Agency for International Development (A.I.D.) of the U.S. Department of Commerce. A Domestic International Sales Corporation (DISC).

Incorporated on October 15, 1974, under the laws of the State of Florida, and chartered by the Secretary of State.

DIRECTORS AND OFFICERS

Philip R. Lecours, M.B.A.: President and CEO.

José M. Cujó: Vice President/Treasurer and CFO.

Jorge Barreto, C.P.A.: Vice-President/Secretary.

Banking:

Intercontinental Bank, 3663 S.W. Eight St., Miami, Fla. 33135, Telf. (305) 446-5570, A/C 1201-219077.

Totalbank, 2720 Coral Way, Miami, Fla. 33145, Telf. (305) 448-6500. A/C 13-046-3.

Certified public accountants:

Grau, Urrechaga, and Janus, P.A., 21, S.E. First Ave., Miami, Fla. 33131, Telf. (305) 373-0123.

Dun & Bradstreet: 07-699-1355.

Foreign credit insurance association policy: SD 875.

Federal E.I.: 59-1552437.

Florida sales tax exemption certificate: 23-08-144368-80.

Members: American Surgical Trade Association (ASTA), Greater Miami Chamber of Commerce.

Problem areas: (1) Since the beginning of our business, we subscribed to the U.S. Department of Commerce "TOP" service for trade leads. Our problem has been one of effective communication. Many times, the trade leads appear listed within such a short time from the bids closing dates that it is impossible to complete a quotation and deliver it to a foreign country within the time stipulated.

Case in point: "TOP" issue of August 29, received in our office August 31, 1983. Notice 504804 dated August 11, 1983. Material: Anesthesia apparatus. Bid deadline: September 22, 1983.

In this case we are only allowed 22 days to request the documents, prepare the quotation, arrange for a bid bond, prepare necessary certifications, obtain catalogs, and deliver the bid in Greece. With the help of the American Embassy in Greece, whom we contacted, we obtained the bid documents expeditiously. Based on the review of payment conditions, we declined to offer our quotation. However, about three months ago, on a bid in the Cental African Republic, published in the "TOP" requested the same assistance and the American Embassy, in Bangui did not even acknowlege our telex or cable.

Proposed solution: We propose that the commerical attaches in all foreign posts obtain bid documents on all tenders whose cost is fifty dollars or less that appear in the "TOP" so that American firms can obtain these packages from a clearing house in Washington without the delay of air mail which may take over two weeks. This would also circumvent intentional delays that may occur to ensure that U.S. firms do not compete.

Furthermore, we propose that bid documents on projects financed in whole or in part by the United States, be subject to a bid deadline of two months after the document package is available in the United States and advertised in the "TOP" or in the A.I.D. financed export opportunities publication.

We would also encourage a program whereby, on a cost basis, an exporter can prevail on the United States Embassy to obtain a bid package and send it via courier express to the exporter.

Problem area 2: There exist, for a small manufacturer, various constraints in actively seeking export markets. They are:

(1) Expense of promotion which may result in little or no business after committing funds.

(2) Time resource availability. The time to train personnel and study export markets may not be available.

(3) Dealing with banks and letters of credit. Dealing with freight forwarders and export documentation. The services required for these transactions may not be available at the locale of the small manufacturer. For example, it may be difficult for a manufacturer in Tennessee to have an expert on letters of credit at his normal banking establishment.

(4) Variation with U.S. business norms. In other countries an individual may feel free to cancel an order anytime before the receipt of the merchandise.

(5) Lack of understanding of legalese in the documentation package of a bid. Many U.S. concerns will, after reading through twenty-five pages concerning disputes, force majeure, performance bonds, and damnation for lack of compliance with packing and marks, simply refuse to enter into a bid contest when the serving of the order is the simplest procedure to achieve.

(6) Uncertainty as to accurately projecting costs for freight and insurance, handling, packing and other matters on CIF port of entry basis. This cannot be done unless one is continuously working with a freight forwarder that is knowledgeable of international shipments.

(7) Lack of understanding of strict preparation of the form of the offer. In many cases, unless the forms sent to you are the ones returned, your bid will be disqualified as non-responsive.

(8) Inability to expedite bid bonds around the world within a three to five day period. Bids that require bonds must, at the time of presentation, have bid bonds attached. Many times payable in the country of the bid. Care must be taken in formulating the language of the bid bond and meeting the deadline and bid requirement.

(9) License and permit knowledge of the importing country. For example, certain countries have the equivalent to the FDA and require registration of the product in the national pharmacopea archives before importation is allowed.

There exist, for the small exporter, various constraints. However, we believe that it is important to note that the weakness of the manufacturer happens to be the strength of the exporter. The small exporter may lack the following:

(1) Lack of exacting knowledge of a given product since they deal with so many defferent industries.

(2) Lack of knowledge of the small manufacturer who produces a given product since the small manufacturer has a limited advertising budget.

(3) Lack of time in preparing a quotation when a Manufacturer has to be sourced since there is a bid deadline.

Case in point: We participated, through the years, in bids that required urinary incontinence devices. Last year, through a trade association meeting, we met with a small manufacturer in Tennessee. We have worked together on projects and are now more competitive in areas we could not approach before based on lower pricing due to his lower overhead and the incurrence of no marketing costs by him. In essence, our export company is his international department at no cost to him.

Solution proposed: We propose that small manufacturers and small exporters be encouraged to assist one another in promoting export opportunities since they complement strengths and weaknesses particularly well. Note that this is the concept of the Japanese Trading Company. While we do not believe that all that is Japanese, relating to business management philosophy, must be accepted, it would be foolhardy to excise from our analysis policies followed by a nation that is totally dependent on export for their economic well-being.

This program of self-help for the small manufacturer/exporter should be done by fostering:

(1) The founding of a national trade association with the goal of fostering cooperation and assistance between its members for the purpose of increasing exports as its primary mission.

(2) Preparation of a publication, on a yearly basis, that will identify manufacturers and their products as well as exporters and their expertise. This information can easily be collected as a voluntary addendum to anyone of the many required filings that a business has to provide Government with and printed inexpensively in the manner of the "Commerce Business Daily". Those firms participating should then receive a copy of the publication.

Based on the information provided by the publication and the association, the private sector can contact one another to effectively increase trade.

Problem area 3: Participating in international bids we are frequently requested to place bid and performance bonds. At given points in time, we may have the need to place bid bonds when our line of credit is occupied by other bid bonds that have not expired and we are unable to issue a bid bond through our regular channels. We would like to point out that we have never forfeited a bond in our company's history. However, regular commercial channels to place bid bonds around the world sometimes are not available. In cases such as this, we must wait for a clearing of our credit lines to present a bid. Performance bonds are not a problem since we may assign the letter of credit received from the client to our bank for the issuance of the performance bond.

Case in point: We currently had to select out of ten bids, which had already been prepared, which ones to present since we could not issue bid bonds for all of them. This was on a project that we had already won the previous tender issued and are awaiting receipt of a letter of credit. Also, due to the economic atmosphere in international markets, commercial banks are restricting credit lines. In some cases, reducing previously authorized credit limits.

Proposed solutions: We believe it would be beneficial if, through the small business administration, a program, much like the program aiding small contractors on construction projects, be initiated for small business exporters to provide them with bid bonds to participate in international bids once a firm's reputation and ability to complete a project is established. Furthermore, that U.S. firms that are registered in this program be exempted from posting bid bonds in tenders funded by the A.I.D. and that specific penalties be set forth in case of non-compliance in any particular project.

Problem area 4: Today, no effective method of insuring export receivables, at a reasonable cost, exists. Supposedly, the foreign credit insurance association (F.C.I.A.), in conjunction with the Eximbank, provides for insurance of receivables both, for commercial and political risks. Our direct experience indicates that the coverage provided by the F.C.I.A. and exim-bank, highly touted at all export seminars, is worth the equivalent of having no coverage whatsoever. The major flaws of F.C.I.A. coverage are:

(1) The policy is not available to the majority of small business. It was denied to us for the first five years of the company. During this period, we were advised to seek coverage under the policy our bank had. The bank would insure specific transactions at a higher premium to cover its paperwork. The bank also had the final decision whether it wanted to insure a transaction or not. We found that the bank

even had stricter guidelines to insure us than the normal requirements of the policy.

(2) Once coverage was granted to us, directly from F.C.I.A., we found it to be progessively expensive at a rate higher than the increase in normal operating costs. In 1982, the premium charged was $0.45 per $100.00 of gross invoice value. In 1983, the cost was $0.75 per $100.00 of gross invoice value. This represents a 67 percent increase in cost in a one year period.

(3) We could well believe that the policy is restricted to firms that have a record of performance. We can also reason that higher costs represent the reality of doing business abroad. However, the F.C.I.A. coverage is also limited by geographical area to countries that are buoyant with surplus foreign credit. In essence, where you do not need it. As of August 1, 1983, out of 33 countries in the American Continent, only 8 countries (Bahamas, Barbados, Canada, Mexico, Netherland Antilles, Paraguay, Trinidad/Tobago, and Uruguay) did not have limitations restrictions the F.C.I.A. coverage.

(4) Finally, we would like to point out that the major weakness within the F.C.I.A. system of coverage, is its ineffectiveness to assist the businessperson once a claim is filed. We refused to renew our coverage after the following case occurred.

Case in point: We had been exporting medical supplies to a governmental agency in Costa Rica since 1981. Our operations were on a sight draft basis after competing in international bids, which required bid bonds and performance bonds. Our coverage for that account, under F.C.I.A., was $90,000.00. Due to foreign exchange problems, the receivable fell in arrears. Prior to the foreign exchange shortage, our receivables from that account were collected on a timely basis. On June 10, 1982 we had a receivable in arrears of $91,300.00 Roughly one fifth of our net worth. We therefore, in order to alleviate our cash flow situation, presented a claim to F.C.I.A. The claim was acknowledged received by F.C.I.A. on June 29, 1982. F.C.I.A. indicated that it was forwarding the claim to Eximbank since it was not of a commercial nature but rather based on "political risk". The factor contributing to the delinquency was foreign exchange shortage, not default in payment, we could have collected the receivable in "colones" (Costa Rican currency) but would be unable to convert it to dollars. On September 13, 1982, Eximbank informed us that the claim was not covered under political risk. In their opinion, in Costa Rica there was a "parallel" market for conversion of national currency into U.S. dollars. In other words, through normal financial channels, they agreed the customer could not obtain foreign exchange; however, they advised us that, since there was an opportunity to obtain foreign exchange in this "parallel" market, political risk coverage could not be granted unless the customer acknowledged, directly in writing, that it had tried to avail itself of the "parallel" market and was unable to do so. With this acknowledgment in writing, they would then submit our claim for further consideration.

We were unable to convince our customer to write such a letter, (remember, we are dealing with a governmental agency and, governmental agencies do not patronize "parallel" markets) and, finally, on November 15, 1982 we were informed that political coverage would not cover the claim and it was being returned to the F.C.I.A. for commercial risk coverage. On January 26, 1983, more than one year after establishment of the receivable on our books, F.C.I.A. informed us that they had begun to work the claim under commercial coverage. On February 24, 1983 we received a request for additional documentation (which consequently had been sent in with our original claim). On April 1, 1983 we were informed by F.C.I.A. that it had approved for payment $6,475.80 of the $90,000.00 claim filed. On April 13, 1983 we received a check of $5,245.40 which was the net amount after deductions stipulated in the policy of the $6,475.80 approved.

Concurrent with our claim process, and in exasperation, on February of 1983 we contacted the Miami Office of the U.S. Department of Commerce. We solicited from Douglas Voigt, the international trade specialist assigned to our firm, assistance in this matter. With his assistance, the information was passed on to the American Embassy in Costa Rica. Through joint efforts of our sales representatives in San Jose, and the American Embassy, on April 11, 1983 we started receiving payments directly from our customer. Ironically, we received part payment on invoices that had been settled by the F.C.I.A. and we refunded to the F.C.I.A. Today we have a small balance still open and have netted a settlement, from F.C.I.A., of $884.04. We would like to note that, from January 26, 1983, to April 11, 1983, when we began receiving payments directly from our customer, F.C.I.A. was still fiddling as to whether the claim was covered under political risk or commercial risk for the open amount in question.

CHRONOLOGY OF EVENTS

Elapsed time:		
Days:		
	June 10, 1982	Filing of claim on $30,000.00 in arrears over 180 days.
19	June 29, 1982	Acknowledgment from F.C.I.A., that the claim has been received.
95	Sept 13, 1982	Eximbank advises claim is in review for political risk.
158	Nov. 15, 1982	Eximbank advises coverage not allowed under political risk. Informing F.C.I.A. to cover under commercial insurance claim.
230	Jan. 26, 1983	F.C.I.A. acknowledges it will begin to look at the claim under commercial coverage.
259	Feb. 24, 1983	Additional request for documentation which had already been submitied on June 10, 1982.
307	Apr. 13, 1983	Received $5,245.40 payment, directly from F.C.I.A. on the total $90,000.00 claim.

Note: 307 days in claim administration process, plus 180 days receivable in arrears before the claim is filed, less 30 day terms equals 457 days. It took more than one year, and still a substantial portion of the receivable had not been collected or settled by F.C.I.A

Proposed solution: We propose the following:

(A) The realization, by Government, that the F.C.I.A. policies are not a panacea for export receivable problems. That this institution act mainly as a fair weather friend in export markets where it is not needed.

(B) That alternative sources of protection for exporters be studied in areas where the F.C.I.A. coverage is non-existent.

(C) That a program to aid the small exporter starting out in business be studied.

(D) That for firms with coverage, who file a claim, aid much like the "Federal Disaster Area" programs, where funds are available immediately, in the form of low interest loans, be instituted to aid the small exporter through the time consuming process of claim administration.

Problem area 5: With the demise of Mexico's and Venezuela's economic situation, on which a debt moratorium, by these governments, have been imposed restricting the ability of their private enterprises to pay their U.S.A. suppliers on existing debts, there has been imposed an inequity on many small business exporters with regards to taxation.

Case in point: At inception, for Federal income tax purposes, we had to choose our method of accounting. Since in 1974 we had a cycle of, approximately, 30 to 60 days for our receivable collections, we chose the accrual method of accounting. This method was simpler to maintain since it follows generally accepted accounting principles and we could keep the same method for tax and financial reporting purposes. Because of our financing needs, we have always had prepared audited financial statements by certified public accountants. As a result, we recognize revenues when the merchandise is shipped, even though we make no collection until a later point in time. With receivables turning over in approximately 60 days, by the time we filed our tax returns we had collected the money and could afford to meet our income tax obligations.

Currently, receivable periods have extended well over 60 days and, in some cases, over one year. The income tax regulations permit a request for change in the accounting method, for tax purposes, based on a business reason. However, the commissioner of the Internal Revenue has the power to reject such a petition at his sole discretion. Furthermore, current tax literature indicates that the I.R.S. has been frowning on changes in accounting methods from the accrual to other methods. This process is time consuming and may well be expensive if an outside C.P.A. is brought in to perform the application for the change in method, especially if it requires expertise not found within the accounting staff of the small business exporter. Failure to have the ability to change accounting method, may well result in having to pay income taxes on sales that are not presently collectible but may not be considered uncollectibles since collectibility has been merely prolonged rather than voided altogether. We find this to be abusive of the tax concept of accounting which looks more toward the ability of the taxpayer to pay rather than when an increase in net worth has occurred. It is rather like taxing an individual on stocks he owns which have increased in price on the market but have not yet been sold and turned into cash.

Proposed solution: We would welcome relief from this inequity by providing a once in a lifetime election to switch from the current method of accounting to one much like the installment method of accounting used by dealers in personal property that sell merchandise under the installment plan. Under this method of accounting, sales revenues and related costs are deferred until the point of collection. Revenues and costs are then brought into income at the time collection occurs on a proportional basis that the amount collected bears to the total receivable.

For example: A sale of goods for $100.00, with a cost of $75.00 F.O.B. factory, incoming inland freight of $5.00, outbound freight of $10.00, sales commission to a sales representative of $5.00 occurs. At the point the goods are shipped, no taxable income occurs. When the $100.00 is collected, $100.00 goes to revenues and $95.00 goes to expenses. A $5.00 profit is realized and is taxable at that point in time. If $50.00 is collected, 50 percent of the revenue is recognized allowing a $2.50 taxable profit based on the collection. This method allows taxation at the most equitable point in a transaction. Note that taxation is merely deferred, not eliminated.

Mr. **Ireland**. Thank you, Mr. LeCours. I think your examples are going to be rewarding to us. We will, as I said, put the details of your testimony in the record. We will also ask for some comment by both Eximbank and IRS and some of these other agencies to see if we cannot get a line, not only on your specific problem, but on the common problems as well. Your good examples should help us a great deal.

We are indebted to you for your comments.

Congressman.

Mr. **Bilirakis**. The very detailed remarks bring on a world of questions, but time prevents all of those. I would merely like to ask Mr. LeCours' permission to communicate with him on some of these specific cases.

Mr. **LeCours**. I will be more than happy to.

Mr. **Ireland**. Thank you very much.

Mr. George C. J. Moore, chairman of the Florida Council of International Development, Coral Gables, Fla.

TESTIMONY OF GEORGE C. J. MOORE, CHAIRMAN, FLORIDA COUNCIL OF INTERNATIONAL DEVELOPMENT

Mr. **Moore**. Congressman Ireland, Congressman Bilirakis, ladies and gentlemen, it is a pleasure to be here. We appreciate it very much, and it is good to become acquainted with your committee. We would like you to get to know the Florida Council of International Development. Let us introduce ourselves. We are the private sector advisory board to the Florida State government on matters involving international trade, commerce, and foreign investments.

Each year we conduct and sponsor the Annual Governor's Conference on World Trade. This past year, it was held in Orlando. We had 600 persons attending. It is the leading international event each year in the State of Florida.

We also conduct an annual trade mission to a nearby Latin American or Caribbean country. This year we are going to the Dominican Republic. Last year we went to Venezuela. A description of our Intercambio and also the contents of the Governor's Conference on World Trade are contained in materials which I have submitted along with my statement.

Mr. **Ireland**. We will see that those go into the record. Summarize to the extent you want.

Mr. **Moore**. Let me mention one other major activity of the Florida Council of International Development. Each year we conduct for the Florida Department of Commerce a statewide survey of international business, and attached to the statement, also, is a copy of the survey for 1982. Right now we are analyzing the survey that we conducted for 1983.

Although, basically, the FCID is a State body in its makeup and concerns, we are also very much concerned about Federal legislation and regulation with respect to international trade and business.

You have heard this morning many statistics which emphasize the importance of Florida and the leading role this State plays in the development of international commerce. And, indeed, we applaud your subcommittee, Congressman Ireland, your initiative to set aside greater funding through the Eximbank for small business use in financing exports. We are on record in having supported that. Also, I speak on behalf of the District Export Council of the State of Florida, of which I am vice chairman, which also is on record as being totally in support of this proposal, and we would urge your continued pushing of that legislation, as well as in the Senate of the United States. We feel that it is vitally important. Here in Florida, we have many, many thousands of businesses, most of which are small businesses. And, as you have heard, the export markets are there but the financing is not.

Let me touch briefly on several other items of Federal legislation, and then I would like to move on to other topics altogether. Other legislation which is very important to us here in Florida is the reorganization of Federal resources. We now have the administration-backed bill to create a new Department of International Trade and Industry. We would urge you, through the House, through your colleagues, and through the Senate, to get behind it.

Here in Florida we find it very awkward and cumbersome dealing with many Federal agencies, not only trying to communicate with them but understanding their communications to us.

The reorganization plan is by no means perfect, but we view it as a very sound and solid step forward. And we feel that if small businesses could have one coherent source with which to deal, they could respond much more effectively.

Let me jump to the Caribbean Basin Initiative, which finally made it through the House and the Senate. Unfortunately, it was pruned almost to the point of leaving it in a state of being a corpse. Nevertheless, it is a very significant beginning. And we would like to see it regarded as a starting point, not as a finishing point.

Here in Florida, as we look at the Caribbean, we see a whole spectrum of nations all across the Caribbean. And it is obvious that our businesses in Florida, in dealing with this multitude of countries, are bound to be small businesses. There is no single corporation or collection of large corporations which can respond to the diverse demand of these Caribbean countries. And it is going to continue to be small businesses here in Florida which respond to the export needs of these countries. So the Caribbean Basin Initiative must be regarded as merely a beginning.

We would urge you, if possible, to try to see that some of the original content of that legislation now finds its way back in, by way of substantive amendments.

Let me jump to another topic. Export trading company legislation, which today is barely 1 year old. Last January—this year—we conducted, in Miami, through the District Export Council, a seminar to educate Floridians about export trading companies. It was tremendously well attended. Unfortunately, not only in Florida, but around the Nation, I understand there have only been about 14 applications to establish export trading companies.

The concept, in fact, is very old. It has been used in Europe and the Far East for many years. We would encourage you—although the legislation is now in place—to, nonetheless, follow up in every place you can to educate businesses on how to use export trading companies.

Again, I would reiterate, it is small businesses who really have the potential to use ETC's, because they need to pool their resources. To export, they need to work together. The large corporations already have their own export management companies; it is the small businesses which need ETC's. What we really need is greater leadership in how to put these together and how to prove successful. Success stories with ETC's is what we need to hear as soon as possible. I understand that only five applications have been granted. But the potential remains, and the potential of ETC use is an example, again, for helping small business far more than large business.

Let me jump to another topic which involves, in fact, State legislation, but in reality Federal legislation. You have heard, no doubt, and seen a lot of publicity lately about unitary taxation, which was adopted here in Florida in July, to enable the State to pay for the educational programs proposed by Governor Graham. This is a matter that has come to international attention in Europe and elsewhere around the world.

Here in Florida, a coalition of 21 organizations is pushing for repeal; 2 days ago, the Clearwater Sun contained a lead editorial, complete editorial endorsing repeal of this legislation. But the solution is not here in Florida. The solution really is in Washington.

Senator Mathias has a bill to ban and abolish this type of taxation, and Barber Conable in the House has such legislation.

It is extremely deleterious to the Nation as a whole. It is complicated. It is cumbersome. And, according to the British who have taken a very sophisticated view of this legislation, it is illegal; it produces double taxation.

From our perspective here in Florida, we see exporters who are struggling because of a sharp decline in the Latin American market, being imposed with a new tax upon their foreign source of income. That constitutes a double-whammy which, as Bob Scott said earlier, is dislocating our previously very healthy ratio of exports versus imports.

Now, what can be done? Just next week a White House Cabinet group will recommend whether or not the Federal Government seeks rehearing, by the Supreme Court, in the Container case. And I submit to you gentlemen, when you go back to Washington, if you have any way at all of communicating this bandwagon of contrary opinion that you probably picked up while you were down here, and also perceived in Washington—if there is any way you can communicate that to the Cabinet group which next week will decide whether or not to petition the U.S. Supreme Court to rehear this issue, I think it would be very valuable if you did so.

Earlier you heard about a trade mission, which went from the Tampa area to London last year; it scored a tremendous success. It was written up throughout the British press. This is the London Chamber of Commerce brochure announcing their reverse mission here to the Tampa area this November.

Unfortunately, last week the London Chamber of Commerce announced they were canceling this mission. They are not coming here because of this new tax.

I have also submitted to you a letter written by the Chancellor of the Exchequer of Great Britain to Secretary of the Treasury Donald Regan deploring this method of taxation as being contrary to the U.S.-U.K. Tax Treaty negotiations and enabling double taxation to occur. Other damage is severely being done, and the cancellation of this trade mission, I think, is very tangible, demonstrative proof.

Earlier, I heard mention that one of you represents an area having citrus and phosphates. No doubt in your own constituency you are well aware of how severely this new tax is going to affect these industries.

Here in Florida we have the president of the Senate, Curtis Peterson, who also comes from that area If any influence could be brought to bear on him to seek repeal of this legislation, I think it would do good and eliminate an extreme negative.

If I were Nikita Khrushchev, I would be pounding my shoe on the table here to emphasize how important the point is.

Florida, through our enlightened Department of Commerce and Governor, has established itself as a leading location in terms of developing international business. But our credibility is now on the line. And even if this State has the wisdom to repeal this legislation, the problem may nonetheless occur in other States throughout the country. It is going to complicate, and aggravate, and frustrate, and probably kill many possible situations where international business would otherwise set up here, and create jobs and employment, and thus save manufacturing from leaving this country and going to other countries.

The Florida Council of International Development has published letters to the editor. We have enclosed a copy of one in our packet of materials. We conducted a survey of 293 firms around the State. Over 90 percent of the respondents are dramatically and emphatically against this new method of taxation, which has been in dispute, having originated in California back in the 1950's.

Let me jump to another point. It has nothing to do with legislation, but with funding—where Congress has a very important role. And I emphasize this now because Florida is very much an exporter, not only of goods, tangible, three-dimensional goods, but also services. The funding for promoting trade in services has been far less than it should have been, far less than it ever should be in the future. Any way you can influence greater funding to promote trade in services would be dramatically felt all around the country where there is too little sophistication among people who could export their services to foreigners coming here, paying with the dollars they bought abroad or here.

I am talking about engineering, consulting, accounting, tourism legal, medical, real estate, banking, insurance, the whole gamut of services.

In the United Kingdom, they have a committee on what is called Invisible Exports. Lloyds of London, the international banking community in London, and other service firms make up the Committee on Invisible Exports, and they have for years devoted a great amount of attention to promoting invisible exports. Well, that opportunity is what we have here. We now have for example, more international Edge Act banks in Florida than New York.

The invisible services performed by all the professions need development. The service people need sophistication on how to deal with foreigners. And this is an area where a lot more Federal expenditure could produce a great deal more in terms of redressing the balance-of-payment problems of our country.

Let me mention another matter where legislation is not directly involved, but where Federal influence is critically important. In the past year or two, the Federal Government has attempted to withdraw the U.S. Customs from Miami and Jacksonville in certain respects. Obviously, that could be extremely damaging to the smooth flow of trade in and out of Florida.

We cannot tolerate any withdrawal or movement of customs out of these areas. Customs are short of money and are trying to do this. And we really need to look to our Congressmen all around the State to head off any further attempts to reduce or diminish the presence of customs here in the State.

Let me jump now to the State of Florida and the very special situation we occupy today. As you have heard before, we have 14 regional World Trade Councils around the State. There is one in Sarasota, which is a burgeoning one. There is one in St. Petersburg. There is one in Tampa, and they are elsewhere all around the State.

Just 1 year ago there were maybe 11; 2 years ago there were maybe 8; 5 years ago there were only four or so. They are a new phenomenon. Florida is leading the United States in this development. Each of these typically has a local membership of small businesses—not large businesses but small businesses. Some of their memberships exceed 400. Some of them are tiny and minute, struggling to get established and on their way.

What they really need is assistance to make their presence in the community known. And thus, if you might be able to attend their meetings, address their meetings, possibly be there and present awards they give to exporters in the community, or to give publicity to their efforts and activities, that would have a ripple effect in increasing their membership and increasing the awareness of their members of what the Congress, the Federal Government, and indeed, what our own State government is doing to make it easier and more possible for small businesses to enter exporting, or to expand their exporting.

Let me proceed to what I regard as probably the basic problem which the Federal Government needs to address in the area of export expansion, and that falls simply under the heading of "information." What we see out in the field is widespread ignorance and great underutilization of the tremendous resources held captive, we feel, in Washington. It is time now, because we have a structure throughout the State of Florida of 14 World Trade Councils, and then the umbrella organization, the Florida Council of International Development. It is time to feed these organizations with clear, distinct, usable, persuasive, and readily available materials. And it shouldn't be done simply by happenstance or lack of design.

Today, I have brought with me two publications of the Federal Government, which very briefly, I am going to critique. One of them is that published by the Small Business Administration. It is entitled "Export Marketing for Smaller Firms." This is the fourth edition published in 1979.

This is the third edition, published in 1971.

I am looking at this book which comprises 83 pages. I am just going to thumb through it and make some observations, because I understand it is now undergoing revision. And you, gentlemen, addressing yourselves to the Small Business Administration, I think may be interested in some observations on this publication, which I understand is the sole publication, which, for years, has been published by the SBA in the area of international business.

In many ways it is an excellent document. But what I look for, when I look at a book like this, is a document which would be very useful, and not only useful but inspiring and persuasive, to get small businesses to take the initial steps to get involved in exporting.

As I pick up this book and turn immediately to page 3, I start receiving a whole list of questions. On page 3, I am told to get information on 5 factors.

On page 4, I am told to identify 10 points. Also, on page 4, I am told to address 3 questions.

On page 5, I am faced with 8 more questions.

On page 6, I am presented with 7 factors to consider.

On page 7, there are 12 additional factors to consider.

On page 8, 6 more questions.

And on page 9, 8 checklist points.

Adding those up, we have 59 points to consider before we reach page 10. I would not describe that as very inviting or seductive.

As we move on to chapter 2, we have five pages on statistics—very turgid prose about statistics.

Finally, we get to page 16 where it says: "What kind of help is available from the Department of Commerce?" Unfortunately, it is very brief. There are no cross-references to anywhere else in the book, and there is no mention whatsoever of the Small Business Administration.

We move on. We get to page 36, and the question of what U.S. Government financial support is available? There are seven lines on SBA. Only seven lines. And thereafter begins "However SBA financial support cannot" blah, blah, blah. Tells what it cannot do. Then it goes on in the same paragraph and says: "See more information under U.S. Government Services in the appendix." When you look to the appendix under that heading there is nothing else relating to the SBA. Thus, what we see so far relating to the SBA through 36 pages is 7½ lines, and nothing more. And very little, indeed, on the Department of Commerce.

Thumbing through further, we go to chapter 7, "Selecting a Foreign Representative." That is the last place I would expect to find services of the U.S. Department of Commerce very succinctly described in merely four lines. It merely mentions the agent distributor service, foreign buyer program, trade opportunities program, and the export marketing list service. There is no cross-reference anywhere on this page to other description of these services in the book.

So Federal services are not under the heading of "U.S. Government Services," but buried under "Selecting a Foreign Representative," all very scant and without direction to lead you elsewhere in this book.

Then we get to page 69 under "U.S. Government Publications." I find totally buried two of the most valuable sources for people all around the country. One is the "Foreign Economic Trends" publication, which covers every single country virtually in the world, and another is called "Overseas Business Report," which likewise covers most countries around the world. These two are very valuable publications but, unfortunately, in this book they are buried on pages 69 and 70. And again, very succinctly described without any cross-reference or indication where they can be obtained.

Turning further and finally getting to a heading called "U.S. Government Service," we have about 10 lines on the agent distributor service. You would think they would describe it in more detail, but they don't. They tell you that you have to get a form and they don't mention the cost involved. This would seem to be the place to tell you all about it, but we only have about 10 lines on it. Again, no cross-reference to anywhere else.

Turning to page—and again, I submit, buried—this is on page 74 of an 83-page book, we have a description of the trade opportunities program, the TOPS program. It tells you about finding agents and distributors, but there is no mention whatsoever about trade leads which, in my way of thinking, is the major thrust of the TOPS program. And again, no cross-reference to any other source.

Again, under "U.S. Government Service," I see quite buried a reference to Small Business Advisory Service at Eximbank with a telephone number, but very, very little description of what it does. And, again, way back on page 77. This is why you gentlemen are here today, to upgrade the small business responsiveness of Eximbank. I submit to you that one reason that Eximbank has not been very much contacted is because references like this are very obscure and hard to find.

Finally, on page 78—and we are very near the end of this book—we come to a page on which the Small Business Administration's role is described. It consists of about half a page. But I don't think the lead-in is very good; it says, "The management assistance program can include one-on-one counseling by students or volunteers."

I think students and volunteers may be very knowledgeable and effective, but that is not the way to induce businessmen to get involved with a business agency, to expect students or volunteers to counsel and advise them on how to enter into something as precarious and complicated as international business. Furthermore, there is no mention whatsoever in this half-page description on the SBA of the guarantee loan program. There is no mention of it whatsoever.

We go on and look elsewhere to the appendix. It is, I would say, at best, a very jumbled and scrambled appendix. Here on two pages, 80 and 81, we have these headings: "Monographs," "Handbooks," "Books," "Booklets," "Export Traffic." I don't know what the logic is for that breakdown; it's not apparent to me. I think anyone who wants to put his finger on something here needs to check too many places and figure out too much before it becomes usable.

In two places they list organizations which might be of assistance. One place, there are three organizations listed and another, only two. I find it astonishing that a total of only five organizations in the Nation are listed in this book.

Finally, when you get to the rear—and that's often the most valuable part of any book, the index—well, there is no index. I think it is almost insulting for the Federal Government to produce a book that should have this much importance and yet provide no index. Many people want a quick answer to a question and they look to the index. If there is no index, they look to the table of contents—and this table of contents is very vague in my opinion.

In other words, there is no way to lead into this book and put your finger on a quick answer. Thus, I submit to you, while this is undergoing revision—and this edition is an improvement on the earlier revision—this edition needs a lot of improvement. We would like to see it happen, and any way we can help we'd love to do it.

Mr. IRELAND. Let me interrupt you, Mr. Moore, because we've got one more witness to get to today. I would encourage you not to put any rose-colored glasses on. As I'm sure you are aware, the reason that there was no mention in that booklet of Small Business Administration export problem programs is because none existed until the law was passed in 1980; therefore, they had nothing to put in there.

I wouldn't want you to get too encouraged, but at least there are some of us in the Government that figured they ought to be doing something. When they put out the new booklet, at least they'll have something to talk about. So they should at least have the benefit of the record showing that there was nothing in the law saying what they should do. That's why it's not in there.

Your point, of course, is well made. Government agencies seldom put out anything that is inspiring or persuasive. That's the way we do things. We would be indebted to you for your comments along this line because those kinds of comments move us to upgrade something like this. I think the people from the SBA will take your comments in the spirit in which they are given. And they are in the midst of doing this. I can assure you that it will have some substantial impact. You are on target there and I compliment you.

If you would kind of summarize and let the other gentleman finish up.

Mr. MOORE. Very briefly, I address myself to this publication of the U.S. Department of Commerce, "Business America." This is an excellent publication. This issue is a classic example with coverage in depth on Canada. Unfortunately, the subscription rate is $55 a year for this biweekly publication. It would seem to me that once the presses get cranking many more copies of this could be produced and distributed. Our World Trade Councils, our members would gobble this up, I'm sure. I'm suggesting that the subscription rate be reduced, only temporarily, to introduce it to more people than are presently subscribing.

We have in "Business America" a calendar of world events. Here in the September 5 issue we have 12 events calendared for around the Nation—only 12. Here in Florida we probably have 12 events in this 2-week period alone. If the calendar of events of this publication were vastly expanded, I think it would put many more people directly in touch with what's going on around the country. A list of events covering all sorts of topics is needed.

Here we have, for example, September 21, in Detroit, a seminar being put on by the Small Business Administration on export marketing for small businesses. This is in 5 days at Detroit. Very few people will receive this notice. Very few people outside of the Detroit area are going to know about it.

Just 6 days later in Raleigh, N.C., another introduction to exporting for small businesses seminar is being held. If only this information—again, it's typical of what's being bottled up and not distributed—could be gotten out to our members, people would attend and people would realize the services and potential that are available.

Again, let me thank you for the Florida Council of International Development's being invited here. We would like to continue to work with you and cooperate with you and give any possible assistance we can.

[Mr. Moore's prepared statement follows:]

PREPARED STATEMENT OF GEORGE C. J. MOORE, CHAIRMAN, FLORIDA COUNCIL OF INTERNATIONAL DEVELOPMENT

Congressman Ireland, it is with great appreciation that the Florida Council of International Development accepts your invitation to appear before your Subcommittee at these hearings today on small business export development.

By way of introduction, the FCID is the official private sector advisory board to the Florida State Government on development of international trade and foreign investment. In addition to advising the Florida Governor, the Secretary of Commerce and the State Legislature, the FCID each year sponsors and conducts the annual Governor's Conference on World Trade. Held this past June, it attracted some 600 persons. It is the international event of the year in Florida. A copy of this year's program is attached.

The FCID also conducts an annual Intercambio Commercial to a Latin American or Caribbean country. This year it is to the Dominican Republic; last year it was to Venezuela. The very successful mission to Venezuela is described in the FCID's spring newsletter which is attached.

Additionally, the FCID conducts for the Florida Department of Commerce an annual statewide survey of international trade. A copy of the 1982 report is attached; the 1983 survey results are now being analyzed. Other FCID activities are described in the attached brochure.

Although the FCID is, in its makeup, a Florida organization, the FCID is very much concerned about federal legislation affecting international trade and foreign investment—and thus we turn now to the activity of your Subcommittee, which brings us here today. The FCID applauds the work of your Subcommittee in developing export opportunities of the small business community. Congressman Ireland, you are particularly to be commended for initiating legislation to require the Eximbank to allocate a substantial and meaningful portion of its resources to small business export expansion. For too long, as you have well observed, the Eximbank has failed to reach out to the thousands of small businesses which, with assistance, can profitably enter export marketing. The FCID is on record as being strongly in favor of your legislation and we pledge continued support. There is no doubt that thousands of small businesses and manufacturers could enter the export arena once competitive financing of their products is made available.

Regarding other federal legislation, the FCID is on record in support of the Administration's reorganization plan to create a new Department of International Trade and Industry. Better organized federal efforts will doubtless result in more effective export expansion, and your support of federal reorganization in the trade area will produce meaningful and lasting results. Although there is no perfect reorganization plan, we urge your support of the Administration's plan which, with all of our help, may gain sufficient momentum to pass.

The Caribbean Basin Initiative, likewise, has long been supported by the FCID, and its passage heralds a new era in trade relations between our country and our neighbors in the Caribbean. Unfortunately, because the CBI was so thoroughly pruned, it marks only a beginning, and amendments to restore its full original thrust would go a long way towards strengthening both trade development and U.S credibility in this vital region. We have a clear choice, whether we want to import Caribbean products of Caribbean people.

The Federal Corrupt Practices Act, as you well know, needs drastic overhaul to enable American business to operate effectively and with certainty overseas. We encourage your support of Congressman Mica's proposed revisions. American business, big and small, has long been frustrated by the vague constraints of the present law.

Legislation enacted by the U.S. Congress in 1982 to establish Export Trading Companies was very significant; however, because the concept is still not well understood, federal efforts to explain and develop use of ETC's should be expanded. This past January, the Florida District Export Council, of which I am Vice Chairman, sponsored a full day seminar on ETC's. The opportunities for ETC use are many, but further informational efforts are needed. Small businesses, in particular, could benefit from mobilization of ETC's.

As Congress considers reauthorization of the Export Administration Act, careful attention needs to be devoted to the concerns of American business, who quite validly seem to feel their interests are either ignored or not understood, as well as the strong positions taken by many foreign governments who find American intervention into what they deem their own business very offensive and, indeed, contrary to international law. Under the pipeline embargo, for example, even orders from the British Government to wholly British companies did not insulate the British companies from possible sanctions under the EAA.

Another very unpopular extension of U.S. extraterritoriality is the unitary method of taxation which recently was adopted here in Florida. Whether or not this onerous and offensive method of taxation will withstand the current movement to obtain its repeal remains to be seen. However, the ultimate solution must lie within the U.S. Congress. Damage to Florida's attractiveness as a location for international business is already mounting. Last week the London Chamber of Commerce announced cancellation of their intended trade mission to Florida this November, citing the unitary tax as being very offputting to British business. We urge Congressional action to proscribe unitary taxation. Attached is a copy of a letter from the British Chancellor of the Exchequer to U.S. Secretary of the Treasury Donald Regan deploring the unitary tax method as being violative of the U.S.-U.K. Tax Treaty and international tax law. The FCID urges your active support of federal legislation to abolish and ban this extremely unpopular method of taxation, before yet other states exacerbate the problem even more. Small export businesses are being extremely hard hit by the foreign source income aspect of Florida's new corporate tax package.

Another area of federal concern in which the FCID urges your active involvement is expansion of the Trade Development Program of trade in services. This is an area of great importance to Florida which has a high proportion of small businesses providing services, and it is also an area which has only recently become recognized as having great potential. Increased federal funding to promote trade in services will produce important results not only for Florida but for the nation as a whole. Many small businesses will be the direct beneficiaries.

In the last year there have been several attempts to scale down or remove Customs facilities from Florida, particularly Miami and Jacksonville. Obviously, this could be disastrous to the smooth flow of international trade to and from Florida. Your resistance of any further attempts would benefit international business, big and small, in Florida.

Here in Florida, we are in the exceptional position of having thirteen regional World Trade Councils spread across the state—more than in any other state in the U.S. These councils, which now embrace thousands of members, need all of the help they can get. More than half are fledgling and still establishing themselves in their respective communities. There are many ways in which the federal government can assist their members, the vast majority of which are small businesses interested in entering or further developing their export potential. At today's hearing I will elaborate on a number of ways in which the federal government can better equip these councils to serve their membership and produce substantial export expansion.

At today's hearing, I will also elaborate on ways whereby the federal government can better provide information and resources to potential and already established exporters, including use of video and cassettes to multiply and radiate the vast informational resources often held captive in Washington.

The Florida Council of International Development again wishes to thank you, Congressman Ireland, and your esteemed Subcommittee for inviting us to appear here today. We offer our fullest possible assistance in helping you achieve our mutually desirable goals of strengthening our nation's economy by strengthening our export potential. Please feel free to call upon the FCID at any time and frequently.

Mr. IRELAND. We thank you. You have made a generous contribution; we appreciate it.

Congressman.

Mr. BILIRAKIS. I have no questions.

Mr. IRELAND. Thank you, Mr. Moore.

Our final witness is the vice president of Sporting Goods Manufacturers Association, North Palm Beach, Fla., Mr. Anthony Kucera.

Mr. BILIRAKIS. I would like to introduce a gentleman that just came in, city commissioner from the city of Clearwater, Jim Burkhill. Jim, thank you for coming to our hearing.

Mr. IRELAND. You have with you Miss Satterwhite?

Mr. KUCERA. Yes, Miss Satterwhite is the national sales and promotion manager for Schutt Manufacturing out of Orlando, Fla. I will introduce Miss Satterwhite at a later point after giving an overview on my statement, if that's agreeable.

Mr. IRELAND. I would like you to understand that we will put a statement, and material in the record, so you can summarize or put together any way you want. Whatever is convenient for you.

Mr. KUCERA. Yes, sir, this will be a summary.

TESTIMONY OF ANTHONY L. KUCERA, VICE PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION, ACCOMPANIED BY MIRIAM SATTERWHITE, SCHUTT MANUFACTURING CO.

Mr. KUCERA. First of all, I would like to commend you, Mr. Chairman, and members of the committee for conducting these hearings and providing industries made up of small manufacturers the opportunity to identify barriers to exporting.

A little bit about the Sporting Goods Manufacturers Association would help set the stage here. We represent some $12 billion in manufacturer shipments or $18 billion at retail level which comprises 80 percent of the sporting goods industry. Our members are approximately 3,900 U.S. athletic clothing, footwear, and equipment producers and distributors. For the most part, they are small to medium-sized businesses, with sales in the range of $1 to $25 million.

In looking at a variety of different problems in the past, it has been our experience that the most common obstacles to exporting for small manufacturers include foreign nontariff barriers, lack of information on finding foreign customers, inadequate financing, and the absence of good information on services provided by the U.S. Government.

The sporting goods industry is intimately familiar with foreign nontariff barriers that deny U.S. manufacturers access to overseas markets. For the last 3 years, our industry and the U.S. Government have been negotiating with Japan to remove bogus Japanese import standards and open the market to U.S. sporting goods.

Without the U.S. Government self-initiating the aluminum bat case against Japan, our baseball bat manufacturers, who are small businesses, would never have been able to win this battle for fair trade. The case was unique as it allowed the U.S. Government to establish linkage on the issue and win revisions of 17 Japanese laws that affect 37 U.S. industries, producing thousands of products.

Government estimates show that up to 200,000 American jobs will be created and a new $5 billion market opened for American exports as a result of the metal bat trade case. This, however, is only one country whose nontariff barriers we've been able to identify and remove. There are many other countries with similar barriers that we have yet to identify.

In general, we find nontariff barriers when our manufacturers try to export to overseas markets and find they can't. Most commonly, these barriers take the form of import licensing restrictions, embargoes on product, trademark restrictions and discriminatory treatment of U.S. product as compared to treatment of domestic product.

We commend to the committee Senate Resolution 99, which calls for the Office of the U.S. Trade Representative and the Department of Commerce to identify foreign nontariff barriers facing U.S. industry. We believe it is our trade representative's responsibility to report on the barriers facing American manufacturers in foreign countries before negotiating bilateral accords that provide greater access to U.S. markets.

If we merely rely on American industry to identify these barriers, we limit ourselves to operating only on a case-by-case basis that represents an ad hoc approach to solving a serious problem. The sporting goods industry is an industry of free traders. At the same time, however, we hold dear the belief in fair trade. We do not find the two concepts mutually exclusive. Only by insisting on fair trade can we hope to stifle growing protectionist tendencies that threaten every country's economic growth and health.

Being able to identify foreign customers, in one sense, is where interest in exporting starts. Unfortunately, two situations hinder small manufacturers in locating potential customers.

First, because export resources are scattered throughout the Federal bureaucracy, it is especially time consuming for the small manufacturer to key into the proper channels that would facilitate this information. When they do, they find the information out of date. It would be most helpful to dedicate certain telephone numbers at the Department of Commerce for first contact information to guide the potential exporter to the proper place.

Second, our foreign embassy posts are not actively engaged in locating leads for industries targeted by the Department of Commerce as import impacted. The small manufacturer who has limited human and financial resources available to him really needs someone on the ground in these foreign countries to research sales leads. Many times all that would be requested is for the commercial staff to collect directories published by foreign industries or trade groups on manufacturers, distributors, agents, and retailers making up a particular market segment. One of the easiest ways to accomplish this is to disseminate the names of people in the trade who attend U.S.-hosted trade missions or catalog shows.

Finally, in regard to financing, the major complaint is the lack of competitive exporting financing. Small exporters are usually dependent on commercial bank credit lines against which their personal and business assets are pledged. Financial techniques presently available to small manufacturers are not really helpful, as they create a contingent liability against the small exporter's existing credit line. If exporting to the less developed countries, the small exporter is particularly constrained by repayment terms that can stretch out to 180 days, which is substantially longer than the 30 days customary in domestic trade.

To export is the idea of a tax credit rather than simply a deduction for export development expenses.

Lastly, before I turn the microphone over to Miriam, I would like to emphasize the strong American dollar does not help stimulate exporting among small manufacturers. Inflated exchange rates make the small manufacturer's goods even more expensive than those offered by foreign competitors. As a result, small businesses are in need of all the assistance they can get.

The Sporting Goods Manufacturers Association is committed to increasing our members exports. As we face an industry trade deficit of $3.3 billion, it is one of the principal ways to retain a domestic industry base that provides real revenues and American jobs.

Through our international trade show, which has been certified by the Department of Commerce, our International Marketing Institute for Sports, and the Recreational Industries Council on Exporting, a joint market research effort between the Department of Commerce and our industry, along with our commitment to reduce foreign nontariff barriers to trade, we are taking the lead to do everything within our means to build the export potential of small sporting goods manufacturers.

Thank you very much.

[Mr. Kucera's prepared statement follows:]

PREPARED STATEMENT OF ANTHONY L. KUCERA, VICE PRESIDENT, SPORTING GOODS MANUFACTURERS ASSOCIATION

Mr. Chairman, I want to commend you and the members of the committee for conducting these hearings and providing industries made up of small manufacturers the opportunity to identify barriers to exporting. By way of introduction, I am Anthony L. Kucera, vice president of the Sporting Goods Manufacturers Association. We represent $12 billion in manufacturer shipments or $18 billion at retail which comprises 80 percent of the sporting goods industry. Our members are approximately 3,900 U.S. athletic clothing, footwear and equipment producers and distributors. For the most part, they are small to medium-sized businesses, with sales in the range of $1 to $25 million.

During the past few months, our trade association embarked on a matching grant program with the International Trade Administration that teaches manufacturers the how-to's of exporting. During intensive one-week sessions with participating members, we have found that the most common obstacles to exporting for small manufacturers include: Foreign non-tariff barriers, lack of information on finding foreign customers, inadequate financing, and the absence of good information on services provided by the U.S. Government.

The sporting goods industry is intimately familiar with foreign non-tarriff barriers that deny U.S. manufacturers access to overseas markets. For the last three years, our industry and the U.S. Government have been negotiating with Japan to remove bogus Japanese import standards and open the market to U.S. sporting goods. Without the U.S. government self-initiating the "Aluminum Bat" case against Japan, our baseball bat manufacturers, who are small businesses, would never have been able to win this battle for fair trade. The case was unique as it allowed the U.S. Government to establish linkage on the issue and win revisions of 17 Japanese laws that affect 37 U.S. industries, producing thousands of products. Government estimates show that up to 200,000 American jobs will be created and a new $5 billion market opened for American exports as a result of the metal bat trade case. This however, is only one country whose non-tariff barriers we've been able to identify and remove. There are many other countries with similar barriers that we have yet to identify. In general, we find non-tariff barriers when our manufacturers try to export to overseas markets and find they can't. Most commonly, these barriers take the form of import licensing restrictions, embargoes on product, trademark restrictions and discriminatory treatment of U.S. product as compared to treatment of domestic product.

We commend to the committee Senate Resolution 99, which calls for the Office of the U.S. Trade Representative and the Department of Commerce to identify foreign non-tariff barriers facing U.S. industry. We believe it is our trade representative's responsibility to report on the barriers facing American manufacturers in foreign countries before negotiating bilateral accords that provide greater access to U.S. markets. If we merely rely on American industry to identify these barriers, we limit ourselves to operating only on a case-by-case basis that represents an ad hoc approach to solving a serious problem. The sporting goods industry is an industry of free-traders. At the same time, however, we hold dear the belief in fair trade. We do not find the two concepts mutually exclusive. Only by insisting on fair trade can we hope to stifle growing protectionist tendencies that threaten every country's economic growth and health.

In the same vein, we hope the committee would support mandatory criteria in any reformulation of the generalized system of preferences that would condition a country's eligibility for preferential tariff treatment to its protection of American intellectual property rights. Our manufacturers cannot even hope to export to foreign markets if those foreign governments do nothing to penalize those engaged in counterfeiting U.S. product and brand names. U.S. sporting goods manufacturers estimate they lose millions of dollars in potential export markets because of this activity.

Being able to identify foreign customers, in one sense, is where interest in exporting starts. Unfortunately, two situations hinder small manufacturers in locating potential customers. First, because export resources are scattered throughout the federal bureaucracy, it is especially time-consuming for the small manufacturer to key into the proper channels that would facilitate this information. When they do, they find the information out-of-date. It would be most helpful to dedicate certain telephone numbers at the Department of Commerce for first contact information to guide the potential exporter to the proper place. Secondly, our foreign embassy posts are not actively engaged in locating leads for industries targeted by the Department of Commerce as import-impacted. The small manufacturer who has limited human and financial resources available to him really needs someone on the ground in these foreign countries to research sales leads. Many times all that would be required is for the commercial staff to collect directories published by foreign industries or trade groups on manufacturers, distributors, agents, and retailers making up a particular market segment. One of the easiest ways to accomplish this is to disseminate the names of people in the trade who attend U.S. hosted trade missions or catalog shows.

Our U.S. trade promotion effort is especially important to small manufacturers. Unfortunately, it is an area where we seem to spend the least dollars. We would encourage the Department of Commerce to strengthen its marketing approach, both in the area of shows and its solicitation of manufacturers to participate. Since many small manufacturers are new-to-export, they need guidelines for best creating an image for their product that (1) may not have brand name appeal, and (2) has not had exposure in the foreign market. While there are a number of techniques to use, let me reference some informational materials that should be part and parcel of any

Department of Commerce trade promotion solicitation—requests for manufacturers to submit with their catalog:

Minimum orders acceptable to U.S. manufacturers in dollars/volume;

Pricing on a "delivered to the customer" basis;

Product delivery time and method of transportation;

Foreign representation terms and conditions;

U.S. manufacturer/distributor service and training programs;

U.S. manufacturer financing/payment policies; and

One-page summary sheet specifying new product lines or unique product features, in the language of the country market, if possible.

While the Department recommends some of these factors be considered by manufacturers in pamphlets on exporting they produce, the information fails to get stressed when it is most critical. I believe that a dynamic marketing strategy would produce greater benefits to the U.S. Government in promoting existing trade efforts. I know that our industry's marketing and international trade people would be happy to sit with those responsible for trade promotion and share private sector strategies that work and could be adaptable.

Finally, in regard to financing, the major complaint is the lack of competitive export financing. Small exporters are usually dependent on commercial bank credit lines, against which their personal and business assets are pledged. The financial techniques presently available to small manufacturers are not really helpful, as they create a contingent liability against the small exporter's existing credit line. If exporting to the less developed countries, the small exporter is particularly constrained by repayment terms that can stretch out to 180 days, which is substantially longer than the 30 days customary in domestic trade. Sporting goods manufacturers cannot afford to make trade-offs in pricing and short-term profitability that our foreign competitors can whose exports are subsidized through various finance mechanisms, from tax credits to practices of concessionary aid financing, the latter mostly tied to capital projects involving the building of sports facilities that create demand for product. One incentive for some of our small sporting goods manufacturers to attempt to export is the idea of a tax credit rather than simply a deduction for export development expenses. I understand this system works very well in some of the European countries.

Lastly, before I turn the microphone over to Miriam Satterwhite, representing Schutt Manufacturing, regarding specific obstacles that her company has faced, I want to emphasize that the strong American dollar does not help stimulate exporting among small manufacturers. Inflated exchange rates make the small manufacturer's goods even more expensive than those offered by foreign competitors. As a result, small businesses are in need of all the assistance they can get. In the world of business, our manufacturers are not merely competing with foreign companies, they are competing with foreign governments for the export dollar.

The sporting goods manufacturers association is committed to increasing our members exports. As we face an industry trade deficit of $3.3 billion, it is one of the principal ways to retain a domestic industry base that provides "real" revenues and American jobs. Through our International trade show, which has been certified by the Department of Commerce, our international marketing institute for sports, and the recreational industries council on exporting, a joint market research effort between the Department of Commerce and our industry, along with our commitment to reduce foreign non-tariff barriers to trade, we are taking the lead to do everything within our means to build the export potential of small sporting goods manufacturers. We strongly urge members of this committee and the Congress to adequately budget the trade promotion efforts of the departments in the Government that can and do help our country's exports. We in the private sector cannot go it alone. It does take an aggressive commitment by Government to help American industry win in the export race. We cannot afford to make trade-offs that sacrifice trade promotion to trade policy. Each are significant to our overall objective which is to regain our competitive edge in the world marketplace.

Mr. **IRELAND**. Welcome, Miss Satterwhite.

Ms. **SATTERWHITE**. Thank you very much. As Mr. Kucera said, I am Miriam Satterwhite with Schutt Manufacturing. Our manufacturing company is out of Litchfield, Ill., which is a little, tiny midwestern town, about 7,200 people. And for the interest of those who are here, I happen to be one of those contemporary housewives that lives in Orlando and commutes from Orlando, Fla., to Litchfield, Ill., and all over the United States, as the national sales manager for this company.

Now, this company did a bit of a different type of thing in that they would hire a woman in the first place as the national sales manager for manufacturing of sporting goods, because there are not any of us in the industry. And then, the fact they would let me stay in my home and do it. They really are trying to find new and more vigorous methods of marketing the product that they have.

At the same time, we have no sales people of our own. We use sales reps, and we are doing this in conjunction with another small Midwestern town, which is over in Kansas. We are using the same sales reps that they are using, so that we are trying to dovetail our efforts. Before now, that particular company was a stocking distributor for us, which, of course, was another step in our marketing program. We have cut that out, again, trying to make the bottom line more profitable.

We have been very, very unsuccessful in really doing any exporting to other countries. A little bit. Just for the benefit of those of you who have never heard of Schutt, we are the world's largest manufacturer of football faceguards.

Those of you who are familiar with the pros' faceguards, those are—anyway, we are the world's largest manufacturer of faceguards; unfortunately, we do not manufacture the helmet. And probably some of you are more familiar with Ridell, because they manufacture their helmet also. However, they don't make nearly as many of the guards. They still use some of our guards, by the way.

We also are the United States oldest manufacturer of basketball goals, and we have been very unsuccessful mainly because of our lack of knowledge of how to get these things into foreign countries. We have managed to get between 3,000 and 4,000 faceguards a year into Japan for the last 5 or 6 years. That is about the most we have done anywhere.

We have sold about 1,000 or so handpumps through the Sony Trading Exchange Co. here. These, by the way, were done through trading company. They were not sold directly to Japan.

We also have been able to sell a few things to Rotterdam, and just a few speckled things here and there. However, significantly, we have not done any exporting. However, the importing business has hurt us a great deal.

We've had almost no success in Mexico. In Canada, we do have two sporting goods dealers that work with us, but they do very small amounts—very small volumes of business with Schutt, mainly because they don't know how and we don't know how to work with them. We've not been furnished that kind of information.

For the sake of those of you who are interested, we do manufacture the faceguards, the regular basketball goals, a rim we call the gorilla goal which we feel will be in direct competition—in fact, we feel it is already making a real dent in the breakaway goal business.

Mr. IRELAND. Explain to me what a breakaway goal is.

Ms. SATTERWHITE. The breakaway goal is the basketball goal that you see the big, tall guys jump upon it, dunk. And when they dunk, it goes back, it flexes with the weight and goes back into place.

Now, the problem with those breakaway goals is they are hinged at the back with ball bearings. And, after a period of time, one of these big guys will dunk, and the rim will not go back in place. It stays down. In fact, I was out at the University of New Mexico in Albuquerque just before the NCAA finals this year, and they were really complaining about them because they had to replace their goals three times.

We manufacture a gorilla goal which has no movable parts and will take the same kind of pressure and weight and so forth, concentrating in one place.

In addition to that, we have the hand inflaters also. I brought with me a couple of real goodies that we manufacture. One of them is what we call an electric ball inflater. The other one—we've gotten away from it being called the electric ball inflater altogether and it is now just a miniature compressor, which is a piggyback-type thing. That's this one right here, which actually has two motors in there. This one is our ball inflater. We feel that both of these items would be excellent for exporting. One of the main reasons is because of the fantastic way they are made.

First of all, there is an oilless crankcase that can be mounted in almost any position. Any of you are welcome to come up and see these, if you would like to. They are compact, lightweight, with all aluminum components. They only weigh about 5½ pounds each. And they are completely maintenance free because they have been prelubricated.

We have a high performance test that we put them through. We keep this thing going at all times. They can be adapted to almost any application that an individual might have, as long as it doesn't have more than 150 BSI's.

Now, what we are using them for in the United States is for air suspension systems, load leveling, and door opening systems, and so forth, in addition to the sporting goods industry. We are now marketing these to our industries as well as the sporting goods industry.

They are available in both 12 volts and 10 volts, which makes it where overseas application could be used without any problem.

I bring these for you to look at because we feel they are really top quality merchandise.

Mr. IRELAND. May I interrupt? Where do you find the problem of those two products overseas?

Ms. SATTERWHITE. Not more than anything else. It is just something—the company is located there in the Midwest, and they have had some marketing problems anyway. And I just feel that we need to have some help to some doors to be opened.

We don't know where to go to look for customers. We don't know what the next avenues are to take, and so forth.

Mr. IRELAND. I just wondered if there was a nontariff barrier problem like the aluminum bat operation there, or whether it was just an information problem.

Ms. SATTERWHITE. Mainly information.

As I said, Schutt is located halfway between Springfield, Ill., and St. Louis, Mo., out in the middle of nowhere.

Mr. **Ireland**. Where are you going to be on November 16? Are you going to go to the OPIC Haskins & Sells—were you here when this was discussed? There is an awful lot of information. You might want to pick one up back there. I mean, in the spirit of this information, I think your point is well made.

There are so many small businesses that don't know where to get the information.

Ms. **Satterwhite**. We feel that is true.

We have got to share with you now also that our U.S. trade promotion effort report is especially important to the small businesses.

We feel that it is an area where—it's the last place that money is spent for small business efforts, and so forth. And, of course, if you read the statistics, small businesses employ more people than anybody else in the United States.

Our little company's income hovers around $2 million. we feel that it could be increased to $3 or $4 million with the right kinds of marketing strides, and so forth.

We would encourage the Department of Commerce to strengthen its marketing approach, both in the areas of shows and its solicitation of the manufacturers to participate in them.

Since many of the small manufacturers are new to the export business, we need guidelines for the best way to create an image for our products, mainly because many of them do not have brand name appeal, so there has not been exposure in the foreign market for these things.

While there are a number of techniques to use, I would like to reference some of the information or materials that should be part or parcel to any Department of Commerce trade promotion/solicitation, such as minimum orders acceptable to U.S. manufacturers in dollar volume, prices on a delivered-to-the-customer basis, product delivery time and method of transportation. And I might add in here, the kinds of cartons that need to be packaged in to get there properly might even be a problem, especially with something such as this: Foreign representation terms and conditions; U.S. manufacturer/distributor service and training programs; the U.S. manufacture financing and payment policies; and one-page summary sheet specifying new product lines or unique product features in the language of the country market, if it is possible.

While the Department recommends some of these factors be considered by manufacturers with pamphlets on the exporting they produce, the information fails to get stretched to what is most critical to us.

I believe that a dynamic marketing strategy would produce greater benefits to the U.S. Government in promoting existing trade efforts.

We have brought with us here a very large textbook. The title of this is, "International Marketing Institute for Sports." Tony is the vice president of this, and he was introduced earlier.

During the last few months, we have had given to us, or offered to us as part of the trade association's efforts to help us, a marketing program on international exporting, which is a matching grant program with International Trading Administration, which teaches manufacturers the how-tos of exporting.

During the time we go to this school, it is a very, very intensive 1-week program. And, again, if you could even conceive of going through this manual in one week, and even a portion of it, you can imagine how much is presented during that period of time.

Also, the different speakers bringing various literature with them and present them, as well as all your visual and other material that is presented.

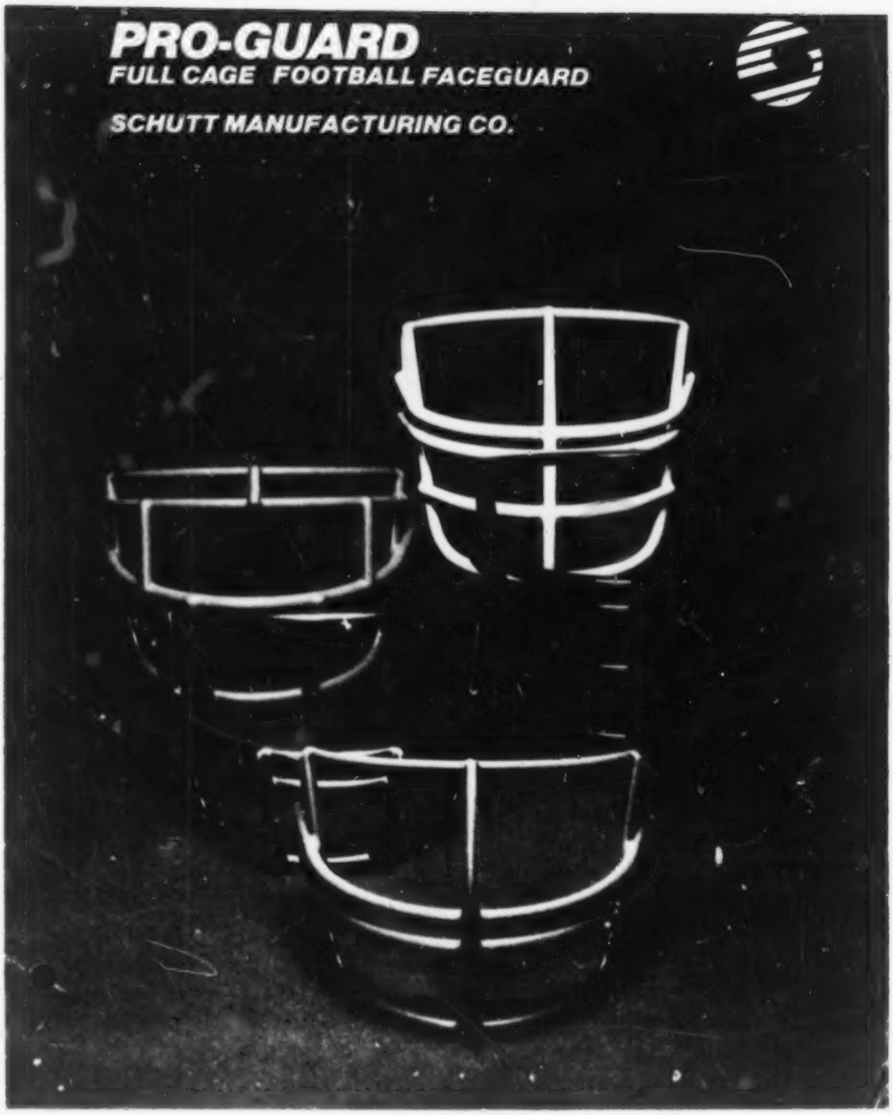
Now, what this did was make us become aware of the fact of how much there is to learn, how much there is to note, and how much knowledge we need to have before we can embark upon something like this.

So I am here today on behalf of small businesses and asking you and all of those that are involved in this, that you will come to the aid of our industry.

Our industry has really been depressed. It has been depressed for a lot of reasons.

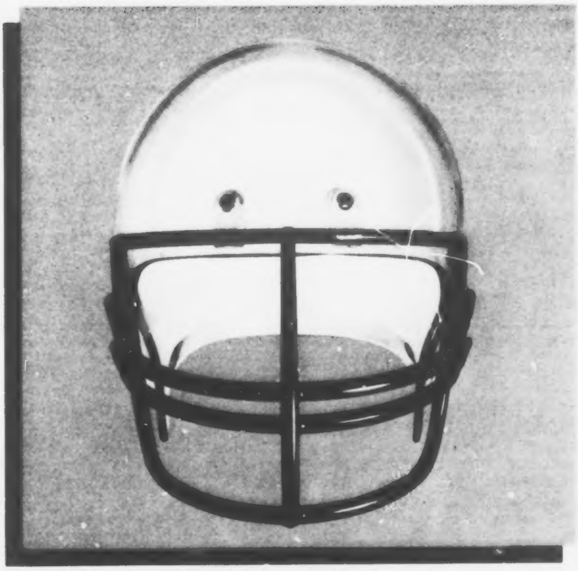
Those of you who pay much attention to sports know that there are more basketballs made in Japan now than there are those made in the United States. I could go on, and on, and on, naming specifics, that the imports of them have almost pushed our small manufacturers out of business.

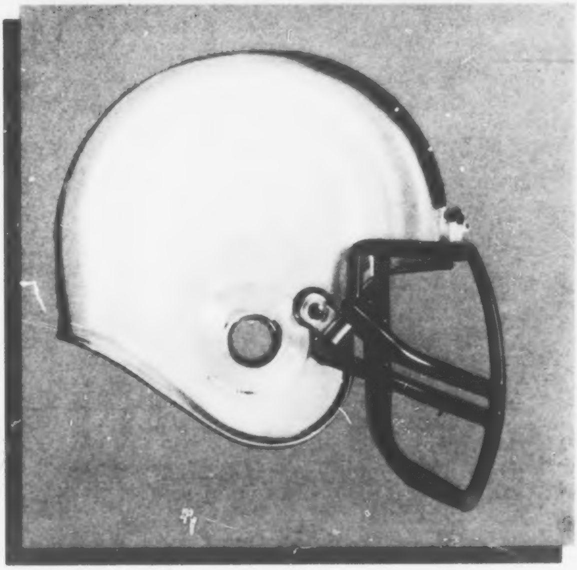
[Schutt faceguard folder follows:]



PRO-GUARD
FULL CAGE FOOTBALL FACEGUARD

SCHUTT MANUFACTURING CO.





PRO-GUARD FEATURES

Schutt is the originator of the welded wire football faceguard and the universally preferred method of attaching the guard to the football helmet with four molded loop straps.

The loop straps and the patented angle of attachment places the loop straps in a position to allow them to function as shock absorbers. The four straps work in conjunction with the faceguard to absorb the impacted force resulting from contact play.

The corner configuration strengthens the faceguard and reduces the tendency to spread upon impact. With the angle attachment, the impacted force is transferred into the strap with little to no strap twisting.

The Full-Cage Super-Pro faceguard is designed to be interchangeable with any style Super-Pro faceguard of the same size. No new holes are required on a helmet, drilled and properly fitted when changing models.

The tapered configuration of the Full-Cage Super-Pro football faceguard provides a better overall fit and allows increased neck movement, especially with the longer jaw protection models.

The Full-Cage Super-Pro faceguard configuration provides the player with improved peripheral vision, but still furnishes the necessary protection to the orbit.

SUPER-PRO FACEGUARD

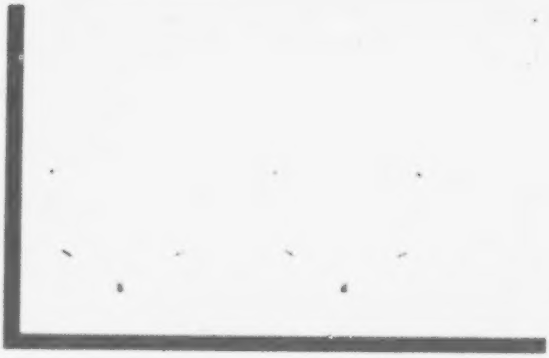
Medium · *Red Dot*
Large · *Green Dot*

NOPO *— Most popular for guards, defensive backs and running backs, offering superior protection with a bar extending through the center of the faceguard.*
OPO *— This full vision model is most popular for quarterbacks and receivers.*
EGOP *— The EGOP provides full facial coverage for the player who wears glasses. (Not available in Jr. Pro size)*
NJOP *— This model is similar to the NOPO but designed to give greater protection to the jaw or chin. Used by aggressive backs and linemen.*
JOP *— Same full vision as the OPO but with the jaw and chin protection of the NJOP.*

Single (SW) and High Double (DW) wire Full-Cage & Super-Pro models available on request.

JR-PRO FACEGUARD

The Jr. Pro faceguards are scaled down versions of full size Super Pro models for youth players not exceeding 140 pounds or age 14. The Jr. Pro faceguard gives the younger player the confidence of facial protection and safety not availble with other types of youth league faceguards. The Jr. Pro faceguards are available in all standard colors.
For Bike Youth small shell helmets, order White Dot, Jr. Pro II, available in grey only.

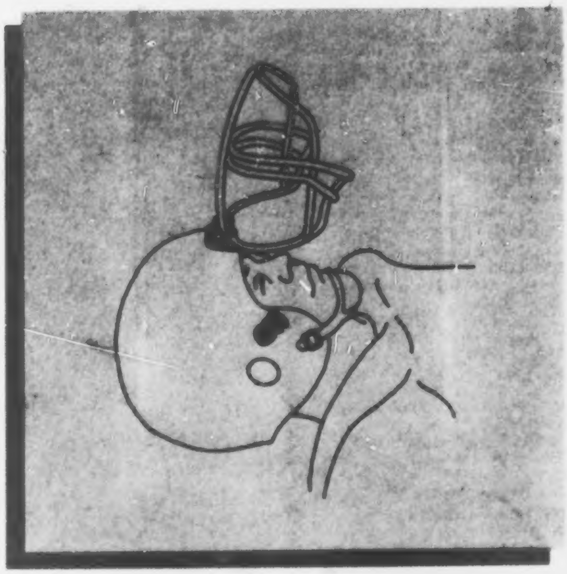


SAFETY SWING-A-WAY® FEATURE

There are times when it is urgent that the facial structure be readily exposed with easy access to the air-way.

When it is important that the helmet and other equipment not be removed, ***ALL THAT IS REQUIRED TO PROVIDE ACCESS TO THE AIR-WAY IS A SHARP BLADE.*** *Cutting the side attachment loop straps allows the face-guard to be swung up completely out of the way. If removal of the guard is desired, the top attachment straps may also be cut.* ***THE HELMET NEED NOT BE DISTURBED DURING ANY OF THE PROCEDURE.***

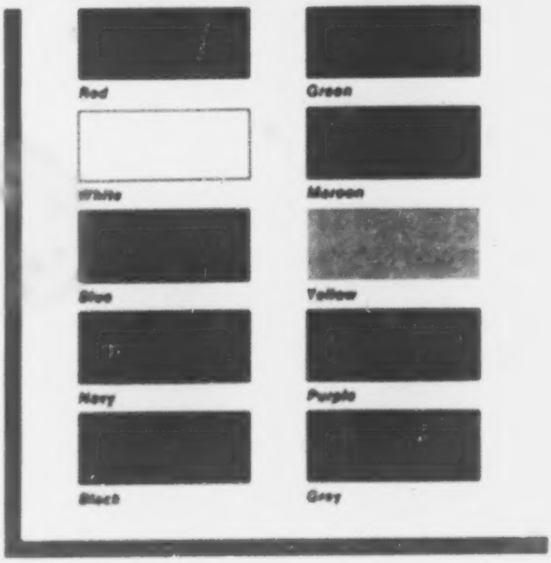
No faceguard / helmet system can protect from all injuries. Head and neck injuries can best be avoided by practicing proper blocking and tackling techniques.
Ask your coach.



IN COLOR

Pro-Guard faceguards are available in 10 crowd pleasing colors for matching uniform or helmet color.

The brilliant colors are the full depth of the thick resilient coating. The ten listed colors are available at no additional cost.



Red	Green
White	Maroon
Blue	Yellow
Navy	Purple
Black	Grey

SCHUTT
MANUFACTURING CO

P.O. Box 354
610 S. Industrial Dr.
Litchfield, Illinois 62056
1-800-637-3047 (toll free except IL)
1-217-324-3978 in IL

Super Pro, Cut-Aways and Swing-A-Way are registered trademarks of Schutt Mfg. Co.
[illegible]

Mr. IRELAND. We certainly appreciate your comments. That is why we are here, to hear that kind of thing so we can help them.

You have to answer one thing for me, and perhaps some of the others. You said you sold 5,000 of those football faceguards in Japan. Are they playing football in Japan now?

Ms. SATTERWHITE. Apparently they play some sort of ball with guards on them.

Mr. IRELAND. What we need to do is export some of our games.

Mr. BILIRAKIS. Are they using them for football faceguards or might they be using them possibly for something else?

Ms. SATTERWHITE. They may be using them for soccer. There are a number of other things they could be used for.

We hope they are starting to play the game of football.

Mr. BILIRAKIS. You see, this is where we have the big problem of balancing. There are many people who feel we should have legislation and try to discourage the Japanese basketballs from coming into this country.

Then you also have the problem of Japan coming into the picture and discouraging American exports to their country. So it is a very difficult thing.

Any grassroots hearing such as this, and listening to all of you who are in the mainstream, is very, very helpful to us.

Sometimes it drives us to the point of being more confused.

Mr. IRELAND. Thank you very kindly for your participation. I hope some of you take a look at this equipment.

And again, before we leave, I would call your attention to what the Combined Overseas Private Investment Corporation, Deloitte, Haskins & Sells, and SBA have put together for November 16. It has a bearing on what we have been trying to do with these hearings today, and this is to see all that is available in the Government.

Congressman, do you have any parting comments?

Mr. BILIRAKIS. First I want to express my gratitude to the city of Dunedin and their city manager for making this facility available to us.

I see that many of these Small Business Administration people have stayed for the entire length of this hearing, which to me is an indication that some of us are going out to lunch together, if we ever get around to it. But their presence here shows an interest on their part. They really want to be able to have a say.

Again, as we said from the beginning, this is bringing Congress to you and you have shown us that you like it and that you want to elicit our comments and also be able to share your viewpoints.

I know we wanted very much to open up a few minutes for very brief comments from the floor. I am not sure we will be able to do it or not.

Mr. IRELAND. I think we can solve that by suggesting that if anybody who has spoken before, or who is in the audience, would like to comment for the record, they should submit their comments to the subcommittee or directly to Congressman Bilirakis. We will make sure it gets into the record.

For those who aren't aware, hearings of this kind normally take several months before everything is brought together and printed.

As I mentioned at the outset, we have already had a hearing in Portland, Oreg., and now this hearing. We have hearings scheduled in Texas and Wisconsin, as well as the Northeast. When we are through we will truly have given the small business exporter and those interested in exporting an opportunity to be heard.

I think you have also noted throughout the testimony that already on the books in the last several years is some legislation directing SBA and Eximbank to help the small businesses. This all comes as a result of listening to people out in the real world. We are indebted to you for your participation.

I would like to thank the people of Dunedin for their hospitality and the Congressman from the Ninth District here for his generous support and hospitality.

With that, we will adjourn. Thank you.

[Whereupon, at 1:20 p.m., the subcommittee adjourned, to reconvene, subject to call of the Chair.]

EXPORT PROMOTION AND SMALL BUSINESS

WEDNESDAY, OCTOBER 26, 1983

House of Representatives,
Subcommittee on Export Opportunities
and Special Small Business Problems,
Committee on Small Business,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2359-A, Rayburn House Office Building, Hon. Andy Ireland (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN IRELAND

Mr. **Ireland**. Good morning everybody. I will not take up the subcommittee's time this morning engaging in a lengthy discussion of small business and its relationship to the international trade marketplace. Everyone knows my position on the issue. Rather, I have called today's hearing to specifically examine the role of the Export-Import Bank of the United States in the export area.

What is Eximbank?

The Bank offers direct loans for large projects and equipment sales that usually require longer term financing. It cooperates with commercial banks in the United States and abroad providing a number of financial arrangements to help U.S. exporters offer credit guarantees to commercial banks that finance export sales. Through the Foreign Credit Insurance Association it has provided insurance to U.S. exporters, enabling them to extend credit terms to their overseas buyers. In all cases, the Bank must find a reasonable assurance of repayment as a precondition of participating in a transaction.

The Bank, in my opinion, is a major trade tool for this Nation, but also can be the sparkplug for the enhancement of small business participation in the trade market. That is why I introduced my bill calling for a set-aside of Eximbank's funds for small business. I am pleased to say that in various forms it has passed both Houses of Congress. Unfortunately, there are many people in Government who do not share my views.

Recently I received a letter from a gentleman who sat next to me at a small business dinner last month. At the dinner I had discussed Eximbank and my initiative with him. The next day he attended a speech given by one of the Office of Management and Budget's directors. He said OMB felt, and I quote:

> Eximbank is a specialized foreign aid program. If we increase the Bank's funding, it will result in a trade war, and all the Bank does is move jobs from one State to another.

So much for enlightened 20th century thinking.

My goal is quite simple—to increase small business participation in the export market. Eximbank can play a major role in the development of a strategy to achieve that goal. This morning I have invited the chairman of the bank and other interested parties to appear and discuss the issue.

Before we hear from the Bank's chairman, however, we are pleased to have with us two representatives from the State of Tennessee who are here to discuss that State's efforts in the export credit area.

U.S. State governments are stepping actively in the export credit arena on behalf of small- and medium-sized companies. Seven State legislatures have passed bills this year creating new credit facilities although not all have been signed by the Governors so far. What is more, about one-third of all the 50 U.S. States have introduced export credit legislation in 1983, a good barometer of the length and breadth of interest nationwide for this new role.

Even in States where legislation has been passed, the new facilities will not open their doors right away. A lot of regulations and policy decisions still have to be worked out before the first application is accepted.

I would ask my colleague Mr. Bilirakis, from the great State of Florida, if he has a statement or comment?

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. **Bilirakis**. Thank you, Mr. Chairman. I am pleased, sir, that you have called this hearing today to address the issue of small business and the Export-Import Bank and I want to commend you for your leadership and commitment toward insuring that small business has access to export financing. Your successful efforts to include in the Eximbank reauthorizing legislation a set-aside for small businesses is a positive step toward this goal.

Like yourself, I strongly reject the notion that small businesses should be ignored when decisions are made on who will receive loans. More and more small businesses are looking for ways to enter foreign markets as a means of increasing their sales. This was made abundantly clear in the field hearing we just held in my congressional district. The Federal Government can and should do more to encourage and assist small business exporters.

At a time when this Nation's balance of payments continues to be on the down side, and unemployment remains high, it is vitally important to every American that we encourage and assist those who seek to export. This assistance certainly must include the availability of export financing. It is obvious what the effect of new exporting and new jobs would mean to our economic picture.

Thank you, Mr. Chairman.

Mr. **Ireland**. Thank you, Mr. Bilirakis.

Before he has to leave for another meeting, I want to call attention to the presence of the gentleman from Virginia, Mr. Sisisky, who is playing an ever increasingly important part not only in this issue but in the issue of procurement in the armed services and small business. We are delighted to have you stop by.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. IRELAND. We look forward to your continuing support.

Mr. SISISKY. I apologize for not being able to stay. I have another meeting in about 17 minutes.

Mr. Ireland. Thank you so much.

Our first witnesses are from the State of Tennessee. Mr. Frank Pledger is assistant commissioner for existing businesses, State of Tennessee, and Mr. John H. Keisling, president, Cumberland Hardwoods, Sparta, Tenn. If you gentlemen would step forward, we want to welcome you. Perhaps if you would each give your testimony, then we can ask you questions as a panel, instead of one at a time.

TESTIMONY OF FRANK PLEDGER, ASSISTANT COMMISSIONER FOR EXISTING BUSINESSES, STATE OF TENNESSEE

Mr. PLEDGER. Thank you, Mr. Chairman. I appreciate the opportunity to be here today.

My name is Frank Pledger, assistant commissioner of Tennessee Economic and Community Development. In this position, I have supervisory responsibility over the Tennessee Export Office, and the Tennessee Small Business Office.

In Tennessee, there are about 5,000 manufacturers and about 700 of these firms have told us that they are engaged to some extent in trade. The latest Department of Commerce figures indicate that Tennessee ranks 15th in manufactured export volume. From 1978 to now we moved from 21st to 15th. This export volume is $5.5 billion or 13.4 percent of manufactured production and accounts for 51,000 jobs or 10.3 percent of manufactured employment. In the agriculture sector, Tennessee exports about $600 million, 30 percent of production, which accounts for 23 percent of agriculture employment. Using data published by the Export-Import Bank of the United States, Tennessee businesses have received practically no export assistance from Eximbank in the last 10 years. Types of assistance that have been available to Tennessee companies are loan guarantees, working capital, and insurance.

The reasons for minimal activity from Tennessee companies are an extremely difficult, confusing and time consuming application process for these programs, and ignorance about programs available to them. Only 16 to 18 percent of all U.S. companies know what Eximbank is, and lack understanding of how export financing could help them make a sale.

With these problems in mind the Tennessee Legislature passed unanimously, and the Governor signed into law on May 3, 1983, the Tennessee Competitive Export Corporation [TCEC]. By passing this law, Tennessee was the first State to create an export finance corporation of this nature. The passage of TCEC is in line with President Reagan's new federalism concept. In fact, the U.S. Trade Representative's staff has reviewed TCEC's program and finds it to be within the guidelines set forth by the GATT. At the NGA meeting on August 2, the Governors said that States should be encouraged to set their own financing offices. TCEC will be governed by a nine member board that will establish a program for Tennessee industry that will:

First, act as a pipeline for Eximbank programs in Tennessee. Personnel from TCEC will be trained by Eximbank to understand how Eximbank reviews loan applications, foreign buyer credit, country risk, et cetera. By being in the State Manufacturer's Office and doing financial reviews in the field, this TCEC individual will be able to speed the process of loan application preparation considerably. By doing most of the packaging himself, the international banks in Tennessee will be more inclined to become involved in the loan application program.

Second, act as a marketing or sales agent for all Federal export financing plans; this includes Eximbank, SBA, FICA, AID, et cetera. Promote the benefits of these programs to the exporting community. Also educate businesses as to what is available, and when to use the various programs.

Third, assume the current responsibilities of the Tennessee Export Office. This office promotes the export of Tennessee products overseas. They conduct educational programs, marketing events, generate trade leads, et cetera.

Initially TCEC will not be directly involved in the loan guarantee business. Its personnel will only help smaller Tennessee businesses take advantage of the existing programs. TCEC will work within any guidelines that are set forth by the Federal Government and the Organization for Economic Cooperation and Development concerning trade financing.

TCEC has submitted a request for funding to both SBA and EDA. This money will be used to study the Tennessee business community to determine exactly what course of action is needed, that is, who needs what type of financing and how TCEC should be structured.

To date, TCE has been working closely, concerning its initial objectives, with Richard McElheny, past director of the U.S. and foreign commercial service, and newly appointed Assistant Secretary of Trade Development; Dr. Ron Muller, director, Center for International Technical Cooperation, American University, and Delio Gianturco, ex-vice-president, Eximbank, and currently president, First Washington Associates. The last two men are perhaps the foremost experts on trade financing in the United States.

With the present attention being given to Eximbank's charter renewal, and its inability to currently service the smaller exporters in this country, TCEC can, and will play a vital role in stimulating exports from Tennessee. It is our hope in TCEC, that Eximbank will continue to support us in our training needs, but will develop a program aimed at financing small business exports from Tennessee and the Nation.

Thank you, sir.

Mr. IRELAND. Thank you, sir.

Mr. Keisling.

TESTIMONY OF JOHN H. KEISLING, PRESIDENT, CUMBERLAND HARDWOODS, INC.

Mr. KEISLING. I am John H. Keisling, president of Cumberland Hardwoods, Inc., which is located in Sparta, Tenn., a community of approximately 7,000 people. Cumberland is a small company of 95 employees. We produce Appalachian hardwood dimension parts for the high end furniture and cabinet industries. I appreciate the opportunity to be here today, especially because I am the only small business owner/operator that has been asked to appear at the many hearings that have been conducted on this subject.

The past 3 years have been tough ones for Cumberland as they have for most small businesses. The recession has been the primary factor contributing to this downturn, but other influences have added to the burden of maintaining a growth rate which has averaged 30 percent per year over the last 7 years.

Our company is fairly specialized. We have not tried to be all things to all people. We try to do only two or three things, to carve out our own special niche in the marketplace and then make our produce as economically and efficiently as anyone in the world. Our domestic market is limited to the top 15 to 20 furniture and cabinet industries. When we began to saturate the domestic market about 4 years ago, we decided to export.

It took us 18 months to get our first export order, and at the end of the first 2 years we had sustained a $37,000 loss from exporting. However, our exports continued to grow and we began to make a profit on them. They peaked at 23 percent of sales in 1981-82. This year they have dropped to 8 percent of sales. While exchange rates have continued somewhat to the downturn in our exports, our No. 1 problem has been financing and risk. The questions I have to ask in exporting are:

One, who is going to take the risk?

Two, how big is the risk?

Three, what is going to happen to my cash flow?

Four, will it damage my line of credit?

To answer those questions, one must look at the question of effective export promotion for small business which includes financing of small business exports. I have concluded from my own experience that more can, should, and indeed must, be done to effectively promote the efforts of small business to the same degree that these kinds of efforts are being done for big business.

I am convinced that the best step is the design and implementation of innovative grassroots State level institutions which will provide a vehicle to communicate and deliver to local business—both exporters and banks—the broad array of existing Federal promotion programs, foremost among them being the financing support of the Eximbank.

As a small business entrepreneur, it is very clear to me that a significant export potential exists in the small business sector that I know. What I don't understand is why the Federal Government agency support for these delivery systems is so far from unanimous. Look at our trade situation:

One, the merchandise trade deficit stood at a record $6.2 billion in August.

Two, the outlook is not much better in the short run as U.S. imports will grow rapidly as the economy recovers, while our exports will be burdened by a strong dollar and the 6- to 9-month lag between our own recovery and that of our trading partners.

Three, even after allowing for a fall in the value of the dollar, one set of projections sees the merchandise trade deficit climbing to

$55 billion for 1983, up from $35 billion in 1982, and going over $60 billion for 1985.

As the Nation and its States search for new sources of economic growth and jobs, the question of the potential contribution of small business exports has not gone unasked. It is now recognized that not only are exports a very significant job creator—one out of eight for 1982—but recent setbacks in export markets from 1980 to 1982 have accounted for 40 percent of the increased joblessness during that period. Studies undertaken by regional, State and industry groups—the New York/New Jersey Port Authority, the State of Wisconsin and the National Tool Builders Association, to name a few—all lead toward the same conclusion.

U.S. small business has a tremendous potential to generate even more exports and jobs. The GAO summarized a portion of these results and estimated that perhaps $4 billion worth of new exports could be forthcoming from small manufacturers alone if these firms were "* * * properly approached and assisted." This study also revealed that only one out of ten small business exporters even knew that there was an Export-Import Bank.

If a redirection of all our small business promotion activities increased small business exports only $3 to $5 billion, the experience of my own business indicates that these sales will be there year after year. Thus, even only a billion dollar improvement in small business exports means at least $10 billion over a decade and that means 200,000 to 300,000 man-years of private sector employment over the same period.

As a small business I have some distinct advantages in exporting over my big business neighbors even though I am somewhat in a me too industry. I can move quickly and opportunistically. I am more service-oriented. I am more labor rather than capital intensive so I can offer the fastest form of job creation.

On the other hand, my risk capacity is very low. In my opinion, U.S. small business can become a tiger force in world trade, but unless we can get a sustaining national policy for placing this grassroots pipeline into place, we cannot self-generate it. This limited risk capacity of most small business coupled with the total indifferent reponses of the Federal financing programs for small business is the root core problem.

Some examples are:

One, the SBA $100 million initiative to finance small business exporters was set up several years ago. Although heavily publicized, it provided no new SBA funding and merely emphasized exporting activities as justification for loans under existing SBA programs. Only $3.4 million of the revolving fund has been used.

Two, the export value of shipments supported by Eximbank during this past fiscal year dropped by 15 percent from $12 to $10 billion. Of that total $2.5 billion was approved during the last week of this year.

The most frequently offered explanations for the poor showing by Federal officials are, in my judgment, not valid. The first reason is that these have been cyclically difficult times for the U.S. export community. World markets are depressed, foreign buyers seeking financing to purchase U.S. goods continue to confront historically high-interest rates while the strong dollar has driven up the domestic currency price of U.S. goods.

Considered in the aggregate, U.S. exports are projected to be off around 10 percent for 1983. Does SBA and Eximbank really expect us to believe that, if that marginal difference were present, their performance in the small business area would dramatically improve? I don't believe the problem of underutilized Federal programs directed toward small business export development can be laid at the door of cyclical variations in demand.

A second reason for the weak performance is that small businesses are not competitive. If they were, we would be exporting more. They tell you that potential small business exporters identified in study after study do not really have any potential. They believe that existing exporters cannot expand sales even if they were able to move from a cash basis to a financed basis.

My opinion is that neither changes in demand nor the competitiveness of small businesses explain the failure of these Federal financing programs to reach down to the grassroots. The problem is not a lack of seminars, handbooks, exhortations and speeches or lack of enough small business hotlines. The problem is a lack of an effective communications and delivery vehicle to spearhead a Federal outreach to small exporters and banks.

Governor Alexander, in some remarks last week at the dedication of the new Nissan truck facility, stated that with respect to international trade he felt that "all the balls are up in the air." He went on to add that we in Tennessee expect to make major progress before they come down. I believe that there is a strong commitment by our State government that should be a signal to these various Federal agencies that, in Tennessee, we are serious about small business exporting. We don't intend to stand idly by watching our Tennessee jobs snatched away as a result of other countries and their export incentive programs.

In my home county, there are 15 manufacturers with employment levels between 20 and 500. Last year, our company was the only one in our community out of those 15 who was able to maintain full employment during the depths of the recession. It was exports that did it.

Mr. IRELAND. Thank you very much. Those were two fine statements.

Before we begin our questioning, I want to introduce the gentleman from Wisconsin, Mr. Toby Roth and the gentlelady from Ohio, Marcey Kaptur, both of whom are particularly interested in this issue. I am delighted that you are both here and look forward to hearing from you.

Let me start the questioning off by asking Mr. Bilirakis if he has any questions.

Mr. BILIRAKIS. Just a couple of brief ones, Mr. Chairman.

Mr. Keisling, I certainly commend you and your company for taking the risk of going into the export trade. Considering the drop in sales, the percent of total sales from 20 some percent to 8 percent, is your company still putting the same emphasis on export trading?

Mr. KEISLING. Well, this year will be the best year our company has ever had, and primarily it is because our domestic market has dramatically improved versus our export market. The drop in export sales is primarily due to the fact that the European market is so dead right now. We do have market opportunities and most of our product now is going into the Pac-Rim area, Taiwan, Singapore, and we have some real fruitful negotiations going on in Japan. I think this is the direction we will move our company in future years because it seems it is going to take Europeans longer to come back onstream.

Part of the percentage drop in export sales is because the domestic market is so pumped up, but there has been a drop in volume and most of if has been associated with European community places where we were able to sell on a letter of credit before. Now they want 60 to 90 days to pay for the merchandise, and with a limited amount of working capital, you just can't be all things to all people. You cannot extend your exports and keep everything else balanced.

If I had an export revolving line of credit, separate and distinct from my domestic line of credit, which was not linchpinned to it, I could definitely pump up my export sales considerably, and there are a lot of companies right close by me that could also.

Mr. **Bilirakis**. I am pleased, Mr. Chairman, that we at least through some of our more courageous firms, are looking into exporting to Taiwan and Japan. It has been the other way around, hasn't it, these past years.

Mr. Pledger, I am told that 700 of 5,000 manufacturers involved in export trade is a pretty good percentage, although it certainly can be improved, and I compliment the State of Tennessee for that accomplishment and also particularly for the fact it is a great idea. I asked our chairman, who also coincidentally comes from Florida, what the progress is in our State regarding that area, and I understand there is some movement toward that and we hope to spur that on.

I would like to ask you, sir—I think your testimony to a large degree has answered the question—but can't there be more than 700 engaged in exports from the State of Tennessee?

Mr. **Pledger**. Absolutely.

Mr. **Bilirakis**. Should there not be?

Mr. **Pledger**. There should be and hopefully there will be a lot more. We are making a new emphasis into exporting from Tennessee. Our emphasis in the past has been in investments coming into Tennessee.

You mentioned Japan just a minute ago and the interest in Japan. I am proud to tell you that Tennessee has more capital investment from Japan than any other State. Now we have been concentrating in that area. Now Governor Alexander has decided to broaden his effort and concentrate additionally on the exporting as well as continuing the investments.

Mr. **Bilirakis**. We thank you, sir.

The more I hear of Governor Alexander, the more I like the man. He has taken quite a leadership role in education and now seems to be taking a leadership role in this area and there must be so many others. I compliment your choice of Governor.

Thank you very much.

I have no further questions.

Mr. Ireland. Thank you.

Mr. Roth.

Mr. Roth. I have a statement to enter into the record.

Mr. Ireland. Without objection.

[Mr. Roth's opening statement follows:]

OPENING STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Roth. Mr. Chairman, I commend you for holding these hearings today on the actions, or lack thereof, by the Export-Import Bank in helping small businesses to export overseas.

Also, Mr. Chairman, you are to be congratulated on successfully amending the Eximbank authorization so that small business can be assured of greater help from the Bank. With the strong likelihood of your provision becoming law, it is only appropriate that we hold this hearing today to determine how the Eximbank plans to implement it.

I also know of the ranking minority member, Mr. Broomfield's, strong interest in this area as well, and am pleased to work with him and the chairman on the Foreign Affairs Committee as well as on this committee.

For years, we have heard numerous complaints over the unwillingness of the Eximbank to provide financing for small businesses. After reading Mr. Draper's prepared testimony, I do detect some forward movement and hope that it will be sustained.

One thing that I find disturbing in the testimony is that only $23.4 million of $100 million in available funds was used for the small manufacturers' discount loan program last year. And of $100 million available under the Small Business Administration's export revolving loan fund, even less has been used. I would like to find out why these programs are not being utilized to their fullest extent. Perhaps today's hearings will shed some light.

My State, Wisconsin, is the 14th largest exporting State. One of three planted acres goes to exports, and one in five jobs is directly related to exports. However, the untapped potential is great, as evidenced by an Export Conference which I recently held. Almost 500 businessmen and women showed up to find out more about exporting. Clearly, this reflects the fact that many more businessmen and women are interested in exporting.

As Bill Brock pointed out in a talk at the Export Conference, the United States has 20 percent of the world's productive capacity but only 13 percent of the world's business, despite the fact that the United States is 65 percent more productive than Japan. If our businesses would turn their attention outward, toward foreign markets, then I believe we could capture much more international trade.

No business community in the world is as innovative as our small business community. With our knowhow, we can saturate foreign markets with our products. While the Japanese can compete with our largest corporations through a process of targeting, I question whether they can ever compete with our millions of innovative small businesses. There is just too much competition there, coming from too many different directions.

I feel that if Federal export policy is geared only toward big business, then we are losing the competitive edge that small business can provide. That is why hearings, such as the one today, are so important. We on the Small Business Committee must be vigilant in insuring that small business is given a fair shake by the Federal Government.

Again, Mr. Chairman, I commend you for holding this hearing and for taking an active and deep interest in small business and exporting.

Mr. ROTH. Thank you very much, Mr. Chairman.

Mr. Keisling, we had an export seminar in Wisconsin—I am from the State of Wisconsin—at which we had 453 executives attend. There is a great interest in export in the State of Wisconsin, too.

The question I have is, can our American companies compete successfully in foreign markets? We are always told labor is so much more inexpensive overseas and the like. What has your experience been?

Mr. KEISLING. The No. 1 reason I am able to compete is because I am in the Appalachian oak area. There is not a whole lot of oak in Japan, as you might know. First of all, you must have something to export they don't have. Our disadvantage before has been that they want to do all the labor. All they wanted was the logs. If you can stay technically and technologically current and not be antiquated in your production techniques, you can compete.

In fact, this order we are shipping to Japan is the first time they have ever ordered finished dimension pieces; that means cut to size parts. We have shown them that, by taking the 100-percent usable parts, they can save money versus taking that big fat log over there and throwing half of it into the ocean. This is where we are trimming the edge and how we compete.

I don't think you can compete if you are just making a generic product that can be made in one place of the world as cheap as it can in another place of the world. You must have a raw material to work with they don't have.

I think this is where we ought to concentrate our effort. We have an abundance of raw materials in this country, some raw materials that they don't have in other places. This is where we have to put our direction and concentration.

Mr. ROTH. We hear on Capitol Hill that we are going to be debating a bill shortly setting up a new Department of Trade, consolidating a number of offices and agencies like the Department of Commerce. Has your experience been there is enough coordination or not as far as dealing with the Federal Government?

Mr. PLEDGER. We would like to see this new proposal passed. We think that we do need only one group handling trade and not two groups. We think that would be the best way to approach it.

Mr. ROTH. Thank you very much, Mr. Chairman.

Mr. IRELAND. Ms. Kaptur.

Ms. KAPTUR. Yes, Mr. Chairman. First, I want to extend my appreciation to you for your courtesy to allow me to join the subcommittee today. I want to say to Mr. Keisling, although I came in on the last half of your testimony, I read it completely and I have one question.

You indicate that the major problem as you see it is lack of an effective communications and delivery vehicle to spearhead a Federal outreach to small exporters and banks. If you were in a position to design that outreach yourself, if you were at the Federal level, how do you see that effort? What does it look like in your own mind, what would be most helpful?

Mr. KEISLING. The way the Eximbank goes after big business is to have conferences where they bring bankers into Washington for 1 or 2 days and talk to them. They tell the bankers to go back and explain the programs to business. The way you attract a small businessman is to go out to his business, learn about his product, find out what he has got to export, and then prequalify him up front for some sort of working capital line.

Once he knows that the money is out there, that it is not going to damage his cashflow or his existing line of credit, that his risk is going to be covered and he can make a buck on it, then I don't think you will have any trouble getting him to export.

The way the TCEC is envisioned is to take the trade specialists who are presently out there talking to these exporters and visiting with them on a regular basis, and we put with them a financing individual so as to achieve a kind of team approach. They go out to the company premises hold his hand, lead him through all this maze of forms, and pretty much prequalify him. When he goes into the bank, he doesn't go through the desk officer because the paperwork has already been handled. He goes direct to the loan committee, bypasses a lot of high overhead in the commercial bank and that makes that small export loan to the commercial bank as attractive as a larger loan would be.

The reluctance of the commercial bank to deal with these small business loans is they don't make the rate of return on them, but if the State officials in their work with the small business can prequalify him or do some of that legwork for the commercial bank, then that loan becomes more attractive.

Ms. KAPTUR. Are you saying the person that visits a given business would be a representative of the Eximbank?

Mr. KEISLING. No; he would be a TCEC representative who has been trained at the Eximbank.

Ms. KAPTUR. We are doing a newsletter in my office. I come from northwestern Ohio. One of the things we have done on this issue is to put a little coupon in there and ask the businesses in the area if they are interested in expanding their export opportunities or interested in exporting at all? We are going to send that to everybody in the district. I have no idea whether people are going to write back or not. Do you think that is a mistake to ask, given businesses out there? Have you ever thought about it? Or, do you think it takes a personal visit from someone to the firm to even get them to think about it? Don't you think a business person might be interested in it themselves?

Mr. KEISLING. Normally a small businessperson is stretched considerably. You have got to sit down with him and explain to him the advantages and let him see how he can make a buck at it and, once he sees this, you are not going to have any problem getting him to do it. But the basic problem is, he has got limited capacity and he is stretched to the gills already. With everything in the world out there as far as problems, he is not going to, on his own, spend an inordinate amount of time evaluating markets and things of that nature. He doesn't have time to do that.

Ms. **Kaptur**. You are saying the best vehicle would be staying at the State level where the person would be trained and would have the resources and would then visit individual businesses in the State like a circuit rider.

OK; thank you.

Mr. **Ireland**. Thank you. First of all I have to say that you put the whole thing in very good perspective in describing what goes on in the risk-taking part of the private sector. Just as a passing comment, I wonder if we are not talking about educating in the wrong direction? It is so evident to many of us who have been in the private sector that provided the knowledge and the fact there is an opportunity, the American small or medium sized, and even large businesses can handle themselves as far as taking advantage of it.

Really the big problem we have is with an awful lot of people in our Federal agencies and, in many States, in our State agencies. However, because of the lack of experience or inability to understand, they don't realize that is out there. Unfortunately, we perhaps ought to be educating the people at all levels in our Federal programs, be they SBA or Eximbank or others, as to the other side of the field. I am afraid there are many people in the various parts of Government—we talked about this this morning—that through lack of experience don't understand what I consider a very clear message that you have placed out there.

Are you a director of a commercial bank?

Mr. **Keisling**. No.

Mr. **Ireland**. You would make an awfully good one. You would understand what they are doing.

Let me ask Mr. Pledger, if I could. You say there are some 700 out of 5,000 manufacturers that are engaged to some extent in trade. That appears to be high from what I have seen. Is there any reason for that which we don't know that might help us?

Mr. **Pledger**. Well, I don't know if it is high or not. We have had a concentrated effort in Tennessee the past 3 years to try to get more exporting. In fact, one of the things that we are doing in the educational process that we just instituted this past fall in five colleges and universities in the State, we have an export documentation course that people can go to, in a 12-week course—after they have completed it—they can fill out most of the forms and documentation necessary to export. We think that through education, this type of education process, and letting people know of the opportunities that they are not competing with the plant down the street or the plant in the next State, that they are competing in a worldwide situation and that they have got to market their products worldwide.

We think that is the educational-governmental process that we should be using.

Mr. **Ireland**. What kind of industries do you think are exporting? Everybody who comes before our groups thinks of exporting only from the seacoast somewhere. Just as an example, how would you characterize the industries in Tennessee that are exporting?

Mr. **Pledger**. I think they are the more innovative, not necessarily high tech, but innovative industries that are exporting. I think it is companies that, for example, like computer control welding devices export well across the world, but innovative companies, not basic companies.

Mr. **Ireland**. Talking about the future, if you could elaborate some on the future intention under the legislation that has been passed and which you are working on. Could you comment on the amount of funding that you envision for this operation?

Mr. **Pledger**. What we would envision is that TCEC will eventually become self-financing through a bonding type issue. Initially it will take some funding which the legislature will have to put in. We have asked, as I said earlier, we have asked the SBA, we have asked the Economic Development Administration, and we have asked Eximbank to help fund a study to determine just how we should go about structuring TCEC to become most effective.

The study is not just for Tennessee. We have structured this study as a pilot project for the entire Nation. Because Tennessee was the first State in the Nation to pass this legislation, we felt like that we should do this type of thing. We haven't got all of the funding resources necessary to get this study off the ground. Basically it is a $330,000 study, one that I mentioned earlier and we have gotten a small commitment from SBA. We have gotten a training commitment from Eximbank, we would hope we could get a financial commitment from Eximbank, and we hope to get a financial commitment from EDA.

Mr. **Ireland**. Ms. Kaptur.

Ms. **Kaptur**. I was just looking back over Mr. Keisling's testimony and I am curious where you say here it took you 18 months to get your first export order. Could you give us a little more detail on what really happened? You said you saturated the domestic market. How in the world did you ever get into exports? What happened?

Mr. **Keisling**. There is a show in Cologne, West Germany, which is a supplier fair for furniture and wood parts manufacturers.

Ms. **Kaptur**. How did you learn about that?

Mr. **Keisling**. One of the West German machinery manufacturers that I bought equipment from accompanied me on this tour. He invited me to accompany him to the European woodworking show and come back through this furniture fair. When I got back to this furniture fair we went from booth to booth soliciting business, and from that, we generated telex traffic back and forth. You understand that when you are trying to ship a person a piece or a product where it is tailored to his specifications, there is a little bit more that has to be communicated than just send me some lumber.

We had to get blueprints and drawings and quotes on basic specifications. When it gets there it has to be right. If it is not right, all you can do is burn it for firewood. It took a little bit longer back and forth, but eventually we were able to get our first order and then word of mouth takes you from there. You get a good product over there and if it is acceptable and they can see how there is an economic savings over getting the basic raw material, you are in business. Since then I have made two other trips back.

One of the biggest helps to me has been the State of Tennessee and the Export Promotion Office. They know my product, what I make, and, what I do. John Walker just got back from a trip he made to Europe where he made five contacts for me while he was over there because he had the name of my company and my product in the back of his mind. So there is constant generation of trade leads being developed by this supportive nature of that relationship.

Ms. **Kaptur**. Thank you very much.

Mr. **Roth**. I would like to follow wp with one question for either one of the gentleman. By holding out the hope of access to additional funding, could we be raising false hopes in the small business·community for something they may not have the know-how or wherewithal to fill? In other words, there have been cases—I am sure this won't surprise you—where people have gone to the Federal Government, have gotten a loan, and have then declared bankruptcy. How are we going to guard against something like that in trying to help people access foreign markets?

Mr. **Keisling**. I don't think it is the loan that we are after, but rather the guarantee. The commercial banks have plenty of money to loan. That is not a problem. The problem is being able to guarantee this against risk. Although risk is the biggest problem you have got, knowing when you get it over there are going to get your money—all my accounts are triple rated accounts discounted on 10 days. I am turning my receivables over every 15 days. Why do I want export when I know it is going to take me 40 or 50 days to collect my money?

Mr. **Roth**. Who takes the ultimate risk? Is it the bank taking the ultimate risk?

Mr. **Keisling**. Yes, that is true, if it is not a guaranteed loan.

Mr. **Roth**. If it is a guaranteed loan then the guarantor takes the ultimate risk?

Mr. **Roth**. Do we have to be concerned about that? Do we have to worry about safeguards?

Mr. **Keisling**. I think you have to be concerned about it. I think you also have to weigh that against what other countries and other nations are doing and what our position is versus what our position should be or could be.

Mr. **Roth**. You have dealt with the West Germans. What is their position?

Mr. **Keisling**. In the European Economic Community this is supposed to be the year of small business.

Mr. **Roth**. So they are encouraging small business in various ways?

Mr. **Keisling**. Guarantees and things of that nature, yes.

Mr. **Roth**. Thank you.

Mr. **Ireland**. Gentlemen, my colleagues, Marcy, do you have any further questions?

Mr. **Keisling**. No thank you.

Mr. **Bilirakis**. No.

Mr. **Ireland**. We thank you. You have made a substantial contribution to our effort here and I join the others in commending you for what you have done in Tennessee for the State and what goes on in Sparta. It is very remarkable and I think we will all profit by it. Thank you very much.

Mr. **Pledger**. Thank you, Mr. Chairman.

Mr. **Ireland**. Our next witness is William H. Draper, president and chairman, Export-Import Bank of the United States, and welcome, Bill.

TESTIMONY OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. **Draper**. Thank you very much, Mr. Chairman, and members of the subcommittee.

I am exceptionally pleased to appear before this subcommittee to discuss the Export-Import Bank's support for small business exporters. I have had a particular interest in this area, and I certainly appreciate this committee's direction and support in our efforts to help small firms enter the export market and succeed in it.

We estimate that fewer than half of the small American firms which have export sales potential are actually exporting. We share your belief that small business concerns can develop a great deal more export business, earn themselves more profits and contribute toward a stronger U.S. economy.

To respond to this need, we have started a major new outreach program to small businesses and their bankers. Eximbank directors and staff are regularly on the road, speaking in a new series of conferences for small businesses interested in export financing. These conferences help smaller firms to understand what programs are available and how to use them. They will also help us to learn more about small businesses and their export concerns.

We have a full range of programs to assist small exporters, and are working to assist a growing number of companies to use those programs. Although small businesses can use any of Eximbank's programs, in practice the small exporter generally uses four of our programs designed to assist exports sold on repayment terms of up to 5 years because these are the products or services usually exported by small companies. This is as opposed to the direct credit, longer-term programs where they are offering bigger products or bigger projects are involved.

First, export credit insurance, provided through the Foreign Credit Insurance Association, is the most active of any of our programs. I might say that Cumberland Hardwood has a $200,000 policy from Eximbank, and it did help him to make his export sales.

FCIA policies reduce the risks of nonpayment by foreign customers. Our New-to-Export policy provides an excellent entry mechanism into international sales for small businesses and offers greater risk protection for new exporters than for established exporters. It was under this policy that Mr. Keisling benefited from Eximbank.

Some 153 small companies are now exporting with FICA new-to-export policies. For example, Import-O-Disc of Farmingdale, N.Y., has a policy covering its exports of records. Swan Optical of Long Island City, N.Y., covers exports of its products under a new-to-export policy.

Second, our commercial bank guarantee program provides repayment protection to commercial banks that extend medium term export loans.

Third, our small manufacturers' discount loan program assists commercial banks to extend fixed-rate financing for exports of small firms' products. The interest rates charged the foreign purchasers are the minimums set in the OECD arrangement on officially supported export credits. We do not require proof of subsidized foreign competition, and we cover 85 percent of the contract value of the sale.

Last week we authorized small manufacturers' discount loan and medium term commercial bank guarantee support for an export loan provided by Southeast Bank, N.A., Miami, to finance a $3 million sale of irrigation and drainage pumps to the Ministry of Agriculture in Lima, Peru. The manufacturer, M&M Pump Corp. of Deerfield Beach, Fla., is a small business, and with Eximbank's assistance has become a successful exporter.

Fourth, our newest program, the export trading company loan guarantee program, established under the provisions of the Export Trading Company Act of 1982, is designed to assist U.S. exporters to obtain short-term working capital loans, often a critical need for a small company. For the first time, we are looking at the domestic exporter for our required reasonable assurance of repayment.

This is a program which Mr. Keisling might apply for and would probably be eligible for, but for some reason, he has not done so. This is a program that I expect will pick up momentum and it is brand new. I can get into more detail later in the questions, but I really think this is right along the lines that he was asking for, that is, that we should have a program that takes care of working capital needs of small businesses who want to export.

As an example, under this program, Aerotech World Trade Corp. will use an Exim-backed $3 million loan from Connecticut National Bank, Hartford, to purchase aerospace and aircraft machinery and parts for export. Sales resulting from this working capital loan will create or sustain employment for Aerotech and for such suppliers as U.S. Gage Co., Luminator, and Hydra-Power Co.

In order to coordinate our programs more closely with those of the Small Business Administration, effective October 1, we adopted the size guidelines set by the SBA.

I would point out again, however, that in addition to the small companies who use our programs directly, thousands of small businesses participate in large orders as suppliers or subcontractors to the major exporter. For example, on a single nuclear powerplant order, Westinghouse used 332 suppliers and subcontractors. While the size of about 100 of these companies was not determined, 89 small businesses were identified—39 percent of the companies whose size was determined.

Eximbank provides considerable information and counseling for all exporters, but particularly for small businesses. Each of our loan officers working with our short- and medium-term programs is involved in assisting small companies. We also have a small business hotline—800-424-5201—that exporters or would-be exporters who need information and guidance can use to discuss their particular situation and get advice on how to proceed. Because of the increasing volume of calls into our hotline service this year, we are now installing sequential telephone answering equipment and training additional staff to handle the calls.

I think it is important to stress that we have a Board of Directors who has an intense interest in small business. James Yonge, who is also a former small businessman, is our director responsible for overseeing our small business activities, and he has the full support of each member of the Board. We believe that our present mandate to assist small business exporters is clear, and we believe that our efforts meet that mandate.

We will continue to encourage small businesses to become involved in exporting with our assistance. We are committed to maintaining a strong initiative to assure small businesses the greatest possible consideration and export financing support within our general budget constraints.

Thank you, Mr. Chairman. I will be happy to respond to questions.

[Mr. Draper's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

I am exceptionally pleased to appear before this Subcommittee to discuss the Export-Import Bank's support for small business exporters. Since I have been at the Bank, coming as I did from a small business, I have had a particular interest in this area. I certainly appreciate this Committee's direction and support in our efforts to try to do more to help small firms enter the export market and succeed in it.

We estimate that fewer than half of the small American firms which have export sales potential are actually exporting. We share your belief that small business concerns can develop a great deal more export business, earn themselves more profits and contribute toward a stronger U.S. economy.

To respond to this need, we have started a major new outreach program to small businesses and their bankers. Eximbank Directors and staff are regularly on the road, speaking in a new series of conferences for small businesses interested in export financing. Other participants in the meetings are from the Small Business Administration, the Department of Commerce and the banking industry. These conferences help smaller firms to understand what programs are available and how to use them. In addition, we hope to learn more about small businesses and their export concerns from the conference participants. We view these meetings as an opportunity for two-way learning.

We have a full range of programs to assist small exporters, and are working to assist a growing number of companies to use those programs.

Although small businesses can use any of Eximbank's programs, in practice the smaller exporter generally uses our programs designed to assist exports sold on repayment terms of up to 5 years, because these are the products or services usually exported by small companies. These sales traditionally have been financed in the U.S. through the private sector with Eximbank assuming the repayment risks inherent in export sales or assuring the commercial banks of the liquidity needed to support their fixed-term financing offers. The program most suitable to a small business export sale generally depends on the nature of the product, the repayment term required, and to some extent the amount of the sale.

We do have programs that are especially designed for the small business exporter. The Small Manufacturers' Discount Loan Program is available to assist commercial banks to meet small firms' needs for fixed-rate export financing of products normally sold on terms of 1–5 years. Eligibility is limited to products of small companies. Under this program, contract value is generally $2,500,000 or less and the interest rate charged the foreign purchaser now is 9.5 percent for sales in poor countries, 10.35 percent in intermediate countries, and 12.15 percent in rich countries. These rates include an assurance of one percentage point for the bank involved in the transaction. The rates charged are the minimums set for 1–5 year transactions in the OECD Arrangement of Officially Supported Export Credits. Unlike our other loan programs we do not require proof of subsidized foreign competition, and we cover 85 percent of the contract value of the sale.

For this small manufacturers' program we requested a specific budgeted amount of $100 million in both Fiscal Years 1983 and 1984. Although we did not turn down any application last year, we used only $23.1 million of this amount because of the general worldwide decline in demand for U.S. exports and resulting decline in financing requests under all of our programs.

Only last week we authorized small manufacturers' discount loan and medium-term commercial bank guarantee support for an export loan provided by Southeast Bank, N.A., Miami, to finance a $3 million sale of irrigation and drainage pumps to the Ministry of Agriculture, in Lima, Peru. The manufacturer, M&W Pump Corporation of Deerfield Beach, Florida, is a small business, and, with Eximbank's assistance, has become a successful exporter. Before this latest transaction, we had authorized support for potential M&W export contracts in Egypt and Nigeria.

In another recent transaction, Girard International Bank of New York requested our assistance under the small manufacturers' discount loan program to support sales of fire fighting equipment by various small manufacturers. Included in the transaction are the W. S. Darley & Company (fire engines and fire pumps), Ladder Tower, Inc. (hydraulic ladder trucks), the Bauer Compressor Corporation (compressors), and Pyronauts (dry chemical powder and braking mechanisms). The sale is in response to an international tender issued by the Principality of Istanbul, Turkey.

Our special "New-to-Export" insurance policy provides an excellent entry mechanism into international sales for small business and offers greater risk protection for companies new to export than for established exporters. In order to qualify for the "New to Export" Policy a company must have had average annual export sales of $750,000 or less over the last two years and not have used FCIA or Eximbank since 1976. The advantages of this program are substantial. The first year's minimum annual premium is only 25 percent of that charged established exporters using our standard policy and increases gradually over the following five years. There is no deductible for the first 2 years, and the deductible gradually increases from the 3rd to the 6th year to ease the transition into the regular program. The policy covers 100 percent of the political risks of non-payment. During the first two policy years, it covers 95 percent of the commercial risks and 90 percent thereafter.

Examples of small businesses insured under this type of policy are the Kenner Plastics Fabricators, Inc., of California, and the Dia Drill, Inc., of Texas. The coverages for such small companies vary but are in amounts ranging up to $1 million.

One major problem that a small business encounters is the lack of adequate working capital. Eximbank's newest program, called the Export Trading Company Loan Guarantee Program, was developed to assist with this problem. The program was established pursuant to the Export Trading Company Act of 1982 and, in accordance with the provisions of that Act, places major emphasis on small, medium-size, minority and agricultural businesses, as well as export trading companies. It is designed to assist the U.S. exporter to obtain short-term working capital loans, which should be particularly helpful to small businesses trying to export. For the first time, we are looking at the domestic exporter for our required "reasonable assurance of repayment."

As an example, under this program, Eximbank will guarantee a credit line from Banco Portugues do Atlantico, New York City, to Delta Brands, Inc., of Irving, Texas, to finance the production of an aluminum tension leveling line for sale to the China National Machinery Import and Export Corporation.

Aerotech World Trade Corporation will use an Exim-backed $3 million loan from Connecticut National Bank, Hartford, to purchase aerospace/aircraft machinery and parts for export. Sales resulting from this working capital loan will create or sustain employment for Aerotech Corporation and for such suppliers as Aeroquip Corporation, Hazeltine Corporation, U.S. Gage Company, Luminator and Hydra-Power Company.

We will also guarantee a line of credit from Commerce Union Bank of Nashville, Tennessee, to Saxon Export Corporation of Miami, Florida, to finance a "new product" export marketing strategy. Saxon now exports photocopiers and, with this new line of credit, will diversify its export product lines to include data processing equipment, television security systems and dental equipment. Saxon Export will become the exclusive export agent for the latter two product lines.

On October 1, 1983 we entered into a new agency and reinsurance agreement with Foreign Credit Insurance Association, the organization that markets and services export credit insurance policies on behalf of Eximbank. Policies and coverage did not change under the new agreement, but Eximbank now assumes all of the political and commercial risks under the policies. FCIA's servicing capabilities will be improved and FCIA personnel throughout the branch offices will assume greater responsibility for marketing all Eximbank programs for small businesses. We believe that we must use all available resources to assist us in reaching this business community.

In order to coordinate our programs more closely with those of the Small Business Administration, effective October 1, we adopted the size guidelines set by the SBA. The SBA sets size standards based on either sales volume or number of employees for each industrial classification, that is, for each four digit SIC code. We are now making every effort to identify small companies involved in each new transaction approved by the Bank. This is relatively easy on small transactions involving a single exporter. On large projects, however, the complete listing of exporters may not be available until the project is actually underway, many months following the approval of financing. On these transactions, we will have to estimate small business involvement based on the best information available at the time our authorization is approved. We are attempting to instigate more accurate record-keeping of our real support for small business, which we will certainly share with you.

I would like to point out again, however, that, in addition to the small companies who use our programs directly, thousands of small businesses participate in large orders where a major contractor is listed on our books as the exporter of record. Most large export orders are made up of many component parts, and small businesses supply a substantial part of those orders as subsuppliers or subcontractors to the major exporting company.

Boeing, for example, in studies called appropriately, "The Invisible Exporters," has identified more than 2,600 small businesses all across the country that supply equipment and parts for their commercial airplanes, many of which are sold abroad with Eximbank financing support. On a single nuclear power plant order, Westinghouse used 332 suppliers and subcontractors. While the size of about 100 of these companies was not determined, 89 small businesses were identified—39 percent of the companies whose size was determined.

I think it is important to recognize that small businesses may need assistance from other Government programs before Eximbank can start providing the assistance they need to export. First, for new small businesses, startup capital is necessary. SBA has programs which are designed to assist in meeting this need. They also license and guarantee loans to Small Business Investment Corporations, which are venture capitalists ready to step into an equity position with promising small companies. SBA's Management Assistance programs are designed to educate the new-to-business person in the most effective and efficient means of running a business on a day-to-day basis.

Once established in the domestic marketplace, there is a new learning process related to international trade. How do you penetrate international markets? Where are the markets for your product? Do you need an export license? Why do you need a distributor in some countries and not in others? What is a Freight Forwarder? What are the normally accepted terms of an international transaction? What are the legal ramifications involved if you do not receive payment as promised or if you fail to meet your side of the agreement? These are questions which a prudent business person should have answered before he or she does a deal, and the answers can be obtained through the International Trade Administration at the Department of Commerce, and through private firms that specialize in providing such services.

Eximbank provides considerable information and counselling for all exporters, but particularly for small businesses. Each of our loan officers working with our short- and medium-term programs is involved in assisting small companies. We also have a Small Business Hotline (800-424-5201) which exporters or would-be exporters who need information and guidance can use to discuss their particular situation and get advice on how to proceed. Since we began the Hotline service in February 1979, more than 25,000 calls have been received, recorded and processed by our staff. By far, the majority have been from small exporters with substantive export financing questions to be answered or problems to be solved.

Because of the increasing volume of calls into our Hotline Service this year—an average of 1,073 a month, which translates into approximately one toll-free call for assistance every 10 mintues of a working day—we are now upgrading the service by installing sequential telephone answering equipment and training additional staff to handle the calls.

I might add that approximately 40 percent of calls in recent months have related to Eximbank's new E.T.C. working capital program which is generating considerable interest as the word of its existence has gone out to the small business community.

Every month, Eximbank offers a one-day briefing program which is open to representatives of small businesses and two-day sessions for commercial bankers. Usual attendance for these sessions is 15 to 20 persons. Selected speakers describe each of the Bank's programs and services. Time is left for individual questions and consultations.

We have increased our marketing efforts directed towards small business and we expect to undertake several additional initiatives in the months ahead to make sure that small businesses are aware of the support available from Eximbank and other sources to help them in exporting. Last January, for example, we furnished each Congressional office with information on our small business support programs, including a suggested press release and newsletter item to communicate information to constituents. Many offices participated in this effort and we saw a measurable increase in calls on the toll-free Small Business Hotline which could be directly attributed to Congressional communications. In fact, that was the period during which we first handled over 1,000 calls in a single month—a volume that continued for the greater part of the year.

In February and March we held our annual Bankers' and Exporters' Conferences. These events generated record interest. Almost 400 people attended the Bankers' Conference and more than 500—the majority representing small and medium-sized businesses—attended the Exporters' Conference. As part of the agenda at both meetings, we highlighted our efforts on behalf of small business and we held workshops specifically on that topic at the Exporters' Conference.

In July, two members of the Bank's staff and James Yonge, our Director who oversees our small business activities, and who is a former small businessman himself spoke to an audience of 300 in Miami. The conference was sponsored by the Florida International Bankers Association and the Florida Exporters-Importers Association. As a follow-up to that conference we organized an export finance workshop for a group of bankers and exporters that will take place in Miami tomorrow. In addition, in July and August 1983, we held a series of meetings with small business leaders and associations concerned with exporting. These were very informative dialogues in which we explained our programs and listened to their concerns.

On November 16, 1983, I will be participating in Operation Opportunity, a live, two hour video-conference beamed from Washington, D.C. to thousands of business executives in 50 American cities. This innovative conference features the programs of eight Government agencies dealing with foreign trade, exporting and investment.

I think it is important to stress that we have a Board of Directors who has an intense interest in small business. We believe that our present mandate to assist small business exporters is clear and we believe that our efforts meet that mandate. We will continue to encourage small businesses to become involved in exporting with our assistance. We are committed to maintaining a strong initiative to assure small businesses the greatest possible consideration and export financing support within our general budget constraints.

Bills which have been passed by both House and Senate to amend and extend the Bank's Charter, the Export-Import Bank Act of 1945, and which now await conference, include new provisions affecting our small business operations. While we continue to believe that a specific set-aside for small business or any other sector sets a disturbing precedent that will hamper the Bank's flexibility to meet the changing needs of the American export effort, we will, as we have in the past, follow the directives and the guidance of the Congress.

Mr. IRELAND. Thank you very much. I think it is only fitting that I begin by calling Ms. Kaptur. She is a member of the Banking Committee and, as you know, has taken a very active interest in the bank.

Ms. KAPTUR. Thank you, Mr. Chairman, I am glad to see Mr. Draper here this morning. He also appeared before the Banking Committee and is quite resilient and we are happy to see him here this morning.

I have a question which deals with the small business set-aside. If you could briefly summarize some of the internal regulatory changes or actions that you are taking. Is what is contained on your testimony this morning a complete summary of what has been done internally within Eximbank at this point? How do you feel about it?

Mr. DRAPER. Well, it is not complete in the sense that we have hired a man to help us set up a marketing program to reach out to lots and lots of companies across the country, and we are just getting underway with that. We have had onboard a staff member who has been responsible for all the small business programs.

We are trying to get a new, easy-to-read brochure that would reach lots of small businesses, presumably through distribution channels that are yet to be worked out, but we have called in a large number of associations of small businesses to help. They include the Smaller Business Association of New England, the American Society of Association of Executives, the National Association of Small Business Investment Companies, the Small Business Division of the U.S. Chamber of Commerce, American Bankers Association, the American Association of MESBIC's, which is for minority SBIC's and the National Association of Women Business Owners. The National Federation of Independent Business was invited, but didn't attend.

We would also say that we have a series of conferences set where we are going to go in to many communities. We are sponsoring the conferences, and we have invited the SBA and the Commerce Department to attend those conferences, and to help reach out to small businesses. We currently have about a dozen programed around the country where a trip would be made and perhaps three cities could be covered at one time.

For example, it might be Akron, Cleveland, and Cincinnati, or something like that. So, we think that we will get quite a bit of exposure on those which are directed specifically to small businesses. By the way, we want the local Congressmen to attend those if possible and be the keynote speaker, and we have talked to some Congressmen about doing that. While we have had some conferences underway already in a more informal way to test out, the formal ones will begin in November. We also have a series of programs in the bank which I did outline in my testimony which we are constantly reviewing, trying to size up to see if they are effective and meeting the demand.

Now, I ought to just talk a little bit more perhaps about the Export Trading Company Act and how it affects us. The Export Trading Company Act was oriented more to setting up new export trading companies that might be distribution companies, similar to some of the Japanese distribution companies, but in it they said that you didn't have to be an export trading company to get financing from the Eximbank, although we would guarantee the export trading companies, as well, for working capital financing.

This is a major new endeavor for the Eximbank in the sense that we have always looked at the financing for the foreign entity that bought American exports. Although our cash never leaves this country, at least in the direct credit program, our loans and our guarantee coverage have always been to a foreign entity. We now are guaranteeing a loan to a domestic entity and that is a major move for small businesses. We will not do it if they can get funding from a commercial bank because we don't want to compete with the commercial banks, that is in our mandate.

But in the case that we just heard—Mr. Keisling from the Cumberland Hardwood Co. in Tennessee—he has just pointed out a need for working capital loans to help him with exports and that is exactly what we are set up to do now. We take either the export accounts receivables or inventory as security, and the terms are quite favorable. We, in effect, guarantee a loan of about 90 percent against the inventory and receivables, which is better than you normally can get from most commercial banks, and as long as he says and we get some confirmation that commercial banks will not make that loan, he can get it from us if it is for export.

Now, what has happened to the program? It was just announced earlier this year, and we have just started really working on it in the sense that we are trying to get the word out. We have had a total of 12 applications; only 12. It is disturbing that we haven't had more. There has been relatively little interest in export trading company licenses, because very often you don't even need the license to actually get some of the benefits, the antitrust benefits and so on, but this is part of our marketing effort. Our outreach effort is to sell this program that we are available to back working capital loans.

Well, of the 12 applications that have come into the bank, 8 of them have actually been approved. Eight were approved, seven are pending, and only one was denied.

Mr. IRELAND. I forgot what the question was.

Mr. DRAPER. The question was, What are we doing, other than what is in my testimony, what are we doing to help reach out to small businesses? I am saying this is a significant program that is overlooked.

Mr. IRELAND. Correct me if I'm wrong, but I thought we were talking about what you were doing to focus on implementing a set-aside. Was that not correct?

Ms. KAPTUR. Yes; that is correct.

Mr. DRAPER. Don't you mean in order to make sure that we comply with a set-aside, that is what I am saying. You can't do it if they don't apply. You can't meet the mandate that you have given us to have 6 to 10 percent of our business in small businesses unless you reach small business.

Ms. KAPTUR. You were using the export trading company example then as one of the ways in which you get working capital out to business?

Mr. DRAPER. Where we again use some of our program, more of our programs, for small business as opposed to large business.

Mr. IRELAND. At this point, and I will move rapidly to you gentlemen, let me establish some of our questions. Mr. Draper, regarding some of the figures on the use of authorized Eximbank funds over the past few years, I have a table here that shows long-term direct loans went in 1978 from $2.8 billion; 1979, $3.7 billion; 1980, a little over $4 billion; 1981, $5 billion; in 1982, $3 billion; in 1983, less than $1 billion, actually $687 million.

The discount loans went from $152 million, fiscal year, even up in 1979 it was $750 million. In 1980, it was again $532 million; 1981, $395; 1982, $413. This past year, only $159.

My question is, If you would tell us very briefly what goes on here. As you heard the gentleman from Tennessee point out, in his opinion and that of others, it is not all the recession and proportionately any measure of the worldwide recession would indicate that the kind of drop didn't happen in all of our things. Can you tell us very briefly what happened?

Mr. **Draper**. Well, in my experience as a small businessman, and in organizing through my venture capital firm a lot of other small businesses, I would say that the one who suffers most in a recession is a small business.

Mr. **Ireland**. I am asking what proportion of total funds of the bank went down?

Mr. **Draper**. Total use of our programs?

Mr. **Ireland**. Yes; it is 20 percent of 1982. We have had a bad recession but it wasn't that kind of a fall off the cliff.

Mr. **Draper**. Two things happened. One, there was a real fall off the cliff in business involving large projects that Eximbank participates in; they were pushed back by governments who felt that it was more prudent to delay than to decide.

The second thing that happened is that commercial rates through the Reagan policies and some others have come down dramatically. As a result, the difference between officially supported rates and the market rates has dropped substantially. You know, most of our loan programs are unsubsidized now.

We believe in using guarantees as the way to support export sales when possible, and this is an overall point. The commercial rates have fallen so that——

Mr. **Ireland**. You mean we are no longer competitive?

Mr. **Draper**. We are no longer lending money at 6 percent. Yes, we are competitive because we have negotiated with the other——

Mr. **Ireland**. You are saying that these rates are making us fall to 20 percent of what we did last year?

Mr. **Draper**. Yes; that is part of it. A combination of two things including a bad recession that is much worse in other countries than in our own country. It is going to be going on for a number of years, and it really has caused the use of our programs to fall back very badly, and the lack of making direct loans at very low-interest rates when the commercial rates were very high, which, of course, is giving away 5 or 6 percentage points every time you do it. That caused tremendous use of our funds in 1981.

So the comparison is not favorable from the standpoint of usage.

Mr. **Ireland**. That makes it noncompetitive in world markets?

Mr. **Draper**. No; the reason is we have negotiated a very strong agreement with the OECD countries which I personally participated in very actively.

Mr. **Ireland**. Have our rates been above or below the OECD rates?

Mr. **Draper**. When I came our rates were 8¾ percent.

Mr. **Ireland**. Related to the OECD level?

Mr. **Draper**. Our rates were 8¾, and the OECD minimum was 7¾ so we were 100 basis points high. We actively negotiated with them and went up unilaterally for 2 months, then they followed. We went to 10¾. When they finally got up to 11.35 for the medium-income countries, we dropped our rates to the minimum.

Mr. **Ireland**. We dropped it to 11.35?

Mr. **Draper**. Yes, sir, and we have rates for the poorest countries that were at 10, that were dropped to 10 from 12, because that was the minimum for the poorest countries, like India and China. OK, that is the point I am making.

Mr. **Ireland**. I think what we need to know for the public, and this of course is the great thrust of the legislation concerning the Eximbank at the present time, is the competitive nature of the bank. My question then is: At the present time, is the rate set by our Eximbank at or above the rate, the floor of OECD nations?

Mr. **Draper**. They are identical to the floors.

Mr. **Ireland**. All the way across the board?

Mr. **Draper**. Yes.

Mr. **Ireland**. They were?

Mr. **Draper**. On medium.

Mr. **Ireland**. Now, that is in all programs they are at the OECD?

Mr. **Draper**. They are actually below the minimum.

Mr. **Ireland**. Then?

Mr. **Draper**. In the case of medium-term loans, which was new to the bank since I got there. The loan program was always used for longer term transactions. We didn't have a medium-term program at the OECD minimum rates. We now have one at 1-percent below the OECD rate, but we insist that the commercial bank, through whom we work on that program charge 1-percent above that so this——

Mr. **Ireland**. They have to charge 1 percent above, so, in effect, they are interfacing. The American exporter is paying a point above the OECD level?

Mr. **Draper**. Wrong. No; he isn't, Mr. Chairman. He is paying the identical rate because we are charging the commercial bank 1 percent below. For a while there we were even with the OECD minimum. Then we realized that smaller manufacturers, the company that made a product that fit into the medium-area, but having to provide financing that was 1 percent above the minimum, so we lowered our rate to 1 percent below the minimum, and then tied to that we insist that the commercial bank charge 1 percent so that the net effect is that our exporter has identical rates to the competition.

Mr. **Ireland**. This qualifies under your arrangement of OECD?

Mr. **Draper**. Yes, sir.

Mr. **Ireland**. As long as it is the exporter's rate?

Mr. **Draper**. Right.

Mr. **Ireland**. Again across the board, all during fiscal year 1983. In other words, from October 1982 through this past month, all your programs, not including individual programs, were at or above the OECD rates during fiscal year 1983?

Mr. **Draper**. No. In the beginning of the year, in that medium-term program, we were 1 percent high.

Mr. **Ireland**. How about the other programs?

Mr. **Draper**. The other programs brought identical to it in January 1983.

Mr. **Ireland**. Well, that would seem to fly in the face of your comment then. The two reasons you gave were the recession and some differential in rate.

Mr. **Draper**. No; the differential, not the elimination of the subsidy in rates, is not just affecting the United States, but it is affecting the Eximbanks around the world so that the Japanese Eximbank business has dropped off. They always used a yen and their yen was unsubsidized, theoretically anyway. But I can compare it to France and England; they have dropped very substantially in the use of their programs, too. We are not alone in this.

We are definitely competitive with the other countries. The point is if you hook a $5 bill on every $100 shipment, it is going to——

Mr. **Ireland**. Then you would agree that since West Germany has increased the portion of their domestic product quite substantially during this period, their exporting must be doing something. That is a result of the fact that each one of these countries has a mixed credit program that we don't have. That is the equivalent of Eximbank participating in——

Mr. **Draper**. Who picked up did you say?

Mr. **Ireland**. West Germany did, and I don't have the detailed figures on the others.

Mr. **Draper**. West Germany never did use subsidy.

Mr. **Ireland**. I am talking about——

Mr. **Draper**. I know.

Mr. **Ireland**. Why did they pick up?

Mr. **Draper**. It is an interesting relationship because West Germany merely used guarantees only, which frankly, we would like to do over the long haul. So when the others stop subsidizing, perhaps they lost some edge to Germany. I am not exactly sure of the reasons why Germany and——

Mr. **Ireland**. They used——

Mr. **Draper**. The inflation rate. When you compare our dollar to the deutsche mark, since 1980 it has appreciated 44 percent.

Mr. **Ireland**. With that, I think that these figures are washed out. I am anxious for your comment on mixed credits in this regard because these other countries continue by this example, to move ahead in exports while we fall far behind. Our Eximbank is a problem. In the weight of all of the commentaries, what I am asking is why we do not have a mixed credit program in this country?

You and the other agencies under the existing law could actually be doing some of it and you don't. These other countries do use a mixed credit operation to get a lower interest rate. In fact, American companies actually use it overseas. Therefore, jobs go overseas, because our multinational American subsidiaries use the results of mixed credit. Why shouldn't we be using mixed credit?

Mr. **Draper**. Well, our mandate is not an aid program, as you know, so unless you tell us to do it, we won't do it. The definition of "mixed credit" is part aid and part credit. We supply the credit and we are doing that according to our mandate. With regard to AID, I think they feel they have a certain mandate, too. As I understand it, the Senate Foreign Relations Committee is against their using those funds for mixed credit.

The question I guess might be if you put it to us and say that we want you to supply mixed credit or do something different from what we are doing, we will do it.

Let me explain what we have done in view of certain mixed credit cases that we feel were really difficult: We extended our term. There was a subway case down in Colombia where France didn't comply with the rules and didn't announce until the day before the bid they were going to put a mixed credit in there. So we went out in term to the extent of 10 year for our exporters by allowing Colombia a 10-year grace, and 20 years to repay the loan.

So that is a pretty soft term, and in effect they had 30 years in which to repay. Now, that is one example. We have also gotten even more aggressive in certain cases to compete with local cost financing from other countries, but we don't have the mandate to perform this.

Mr. **Ireland**. It depends upon what you regard as a mandate. Do you agree that under the existing law you could do it if you wanted to?

Mr. **Draper**. Well I think we might have the authority but we would like to hear from you.

Mr. **Ireland**. What you are saying is that you do have the authority. You want somebody to tell you to do it.

Mr. **Draper**. I don't know that we have the kind of authority though that you are thinking about. Let me use an example: Japan gives $1 billion or lends $1 billion at no interest to the Peoples Republic of China, to develop China's coal mines. They say you can pay back in 4 years. Maybe it is 1 percent interest, maybe 4 percent, maybe no interest. Then tied to that they say that the quid pro quo is that we want 25 percent of your coal production to come to Japan at market rates, and China says that is fine, and Japan says that is what we want. Then comes time to dig the coal out and Japan says, by the way, we have these Komatsu tractors and we don't want you to buy Caterpillar tractors to dig that coal. But it is a small part of the total package, so it really was done with a different purpose in mind. America doesn't want to match that deal. We don't need any coal.

Mr. **Ireland**. We just imported some from Poland.

Mr. **Draper**. Yes; so that is what you are up against. It is a very complex thing.

Mr. **Ireland**. The point of my question is there is some, but limited, authority there. I take it your premise is that even that little bit of authority you need to be told to use if you are going to use it in that regard, is that correct?

Mr. **Draper**. Yes, we will do whatever you tell us to do.

Mr. **Ireland**. I've never heard that around here.

Very quickly, one additional question in regard to this. As I understand it, all the figures show in 1982 less than 3 percent of the activity of the bank went to small business. What was the figure in 1983?

Mr. **Draper**. We can't really give you a hard answer to that because we just have not got that number.

Mr. **Ireland**. Can we get that number? We got it for 1982.

Mr. **Draper**. Right. We can get it on that basis. That number was based on a highly restrictive analysis, employment figure, and so on. It will be greater than that number, but I am not sure how much.

Mr. **Ireland**. How are we going to do the set-aside if we can't get figures? I don't know what these people do in your bank, Bill.

Mr. **Draper**. Let me explain that. We keep the numbers, but we never kept it by the SBA terminology. Now, we have an SIC number in our computer which will identify that.

Mr. **Ireland**. Let me interrupt a second and we can move on to another question.

Get the SIC thing in the computer. It would seem to me that this is something that could be done easily by the end of the month. I would like to have it because it is important to all of the people. Let me tell you what I want, because I don't think it is an onerous task. You have a great big bank with high-priced lawyers and accountants and everything else whirling around in there and you have an SIC code that says what small business should get. You have got a populus out there that says practically nothing, by your own admission, in 1982 and before went to small business. We want more of it to go there, whether the amount is 6 percent or 10 percent or whatever it is. This is a relatively small amount.

Granted, we are given a figure based on a different sized standard. In 1982, it was 3 percent. I would like to know, based on that SIC code, which you say is in your computer, what that figure is on the new 1982 amount, and what the figure is for 1983?

Now, I think this is a watershed because a bank with these people of high prestige should be able to come up with that kind of a figure. These should be public figures. It gets back to our concern of being unable to get even annual reports. Those figures should be in there. I don't think it is an onerous task and I am more than willing for you to tell me what it is right now. But at the end of this month, we should have that figure.

Mr. **Draper**. OK. I am just trying to tell you, Mr. Chairman, that we had a number based on our best estimate, based on a very restrictive definition, and that is how we get the 3 percent. We will give you, based on the same definition, if you want a number based on our new definition and estimate, but we can't give you an exact number because when you make an application now, there is an SIC number put on it, and we have never had that before, and so it won't be for a year from now before we will be able to total up how many we really did help. We have been underestimating dramatically the number of small businesses that we have been helping.

Mr. **Ireland**. Why don't you do it on both? First of all, give us the criteria that you used for the 3 percent; then using that same criteria, find out what it would be for 1983?

Mr. **Draper**. We will be happy to do that.

Mr. **Ireland**. I can't believe with an institution of purported sophistication like the Eximbank that from a comptrollers standpoint, we can't put a finger on those kinds of figures instantaneously.

Mr. **Draper**. Just remember that we, I think, qualify as a small business. We are 344 employees, and maybe we wouldn't on the basis of net worth. We have $2.8 billion net worth; otherwise we are pretty small.

I want you to know we are professional. We have a very good staff and we have excellent sophistication in the numbers control and it is just a matter of putting them in the form that is consistent. It is wrong, I think that we didn't use a small business definition in the past that corresponded with other Government programs.

[The following is additional material received by the subcommittee for insertion at this point:]

At September 30, 1983, approximately 3.87 percent of the active transactions on Eximbank's books were attributable to export sales made directly by small business concerns under the definition of "small business" used by the Bank for some years. This figure does not include subsuppliers unknown to Eximbank where another supplier was listed as "exporter-of-record." For this recordkeeping purpose, small business was defined as a U.S. business having $15 million in current year's sales and/or $10 million in net worth, whichever figure was available.

Starting in fiscal year 1984, Eximbank's definition of small business for recordkeeping and all other purposes will correspond to that of the Small Business Administration, which has as its base the Standard Industrial Classification Code (SIC).

Mr. **IRELAND**. Based on those two things, I would ask one other question. With the sophistication that you just described, when can we expect the 1983 annual report and the figures?

Mr. **DRAPER**. I would say with audited numbers, as soon as the GAO audits the numbers. That has been the biggest problem, GAO has been very slow.

Mr. **IRELAND**. When could we have the unaudited figures?

Mr. **DRAPER**. Today.

Mr. **IRELAND**. We accept.

Mr. **DRAPER**. OK.

Mr. **IRELAND**. Second, I won't ask you to even answer this. Rather, I would point out, based on your description of the 385 employees or however many it is, they have got to have lots of time because last year——

Mr. **DRAPER**. 344.

Mr. **IRELAND**. They did 20 percent of the business that they did the previous year. It seems there would be an awful lot of people marching in the street wondering why people weren't laid off.

Mr. **DRAPER**. That is not true about the 20 percent. For example, we used almost all of our insurance and guarantee authority last year.

Mr. **IRELAND**. When you are using the insurance, you are using your arrangement with the FCIA. I am just saying, if it took that many employees to do it in 1981 and 1982——

Mr. **DRAPER**. I want you to know there isn't 20 percent less activity at the bank.

Mr. **IRELAND**. Even, if it was only 50 percent, you still have the same number of people. I think that is a wonderful thing because there are a lot of them who would be willing to get out and market services for small businesses.

You mentioned in your testimony that you had a new marketing officer. Who is that?

Mr. **DRAPER**. A man named Jim Nelson.

Mr. **IRELAND**. Can you tell us something of his background?

Mr. **DRAPER**. He went to the Military Academy and he is in an exchange program from United Technologies. He is a very fine young man about 36 years old who has been trained in good, sophisticated marketing techniques.

Mr. **IRELAND**. How do you mean an exchange? He is not a permanent employee?

Mr. **DRAPER**. He is a permanent employee through the end of the year. He will be here for 12 months and he is coordinating this to get us going in it. We have other members of the staff who are all working with him to coordinate their programs. We have got 344 people working for small business and they aren't all marketing. Every one of our programs is open to small business.

Mr. **Ireland**. This is not a personal criticism of anyone, but there is a key in here that the people in the bank simply don't understand what the risk taking part of business does. The answer can be found just about anywhere throughout the bank, and it comes out in testimony.

What concerns me is that here we are with a thrust of virtually nothing happening in this area, and we are talking about a perfectly nice young guy that is loaned in a sense to Eximbank for 12 months. He has a background with United Technologies, which is not marketing small business, and what can we expect?

Mr. **Draper**. What would you suggest?

Mr. **Ireland**. I am asking you.

Mr. **Draper**. I am doing my best under a limit of the number of people that we have in trying to manage a tightly managed bank and with very little marketing. We have never been known for marketing.

Mr. **Ireland**. That is what is the problem.

Mr. **Draper**. We are trying to turn that around. So we are bringing in some talent. We are using some talent that we have available now. We were interviewing agencies, talking to OPIC, which is more marketing oriented, trying to get help from them. We are just doing our best to get into a brand new area to try and do what you want us to do, which is to reach out to small business as uneconomical as that may end up being.

Mr. **Ireland**. If you are dedicated to it being uneconomical and the President of the United States says this is the greatest opportunity of existing small business to increase our export, we have got a real conflict.

Mr. **Draper**. No, no, I am just saying in the beginning, while we are starting, it is an exercise in trying to get started. We have a budget for entertainment that was beaten down in Congress, where we asked for $60,000, because we have made a commitment to entertain.

Mr. **Ireland**. This isn't entertainment; this is marketing. Not all marketing is entertainment. I am really concerned. We have established that whether it is 20 percent of the previous 3 years, or 50 percent of the activity, the rate proportion is substantially down. There have got to be people there with a whole lot less to do than they had to do before.

Mr. **Draper**. Exactly.

Mr. **Ireland**. And we have a great opportunity out here.

Mr. **Draper**. We are using the talent we have got to do the best we can.

Mr. **Ireland**. Not with the talent you have got. You have gone out and gotten a young man who has been in a multinational corporation, and a very good one, to put together a marketing program for an area that is small business, not large business. All we have talked about the bank doing is hiring 1 more guy, even 35 employees would only be 10 percent.

Mr. **Draper**. You just asked me about him. We have approximately 10 people in different areas all working in that direction. I mentioned Jim Yonge, who is a full-time board member, who came out of small business and who is helping to direct the effort. We have another staffperson who is assigned full time to work in finding some of these spots and places to go and organize the programs for these small business conferences that I told you about.

The entire insurance and guarantee section is oriented. We have got Dick Feeney here behind me, who is working with small business all the time because that program is almost devoted exclusively to small business. But as you heard, it may be a program as opposed to conference and marketing effort in a final analysis that will help reach and will help small business, as you heard from Mr. Keisling.

So what we are trying to do is have the very best programs, and we are trying to reach those small businesses through the best means we have. We are not a marketing organization, and if you can give us the budget to go out and market, we don't have $1 million of advertising funds that some other agencies have—we might. We are basically a small agency.

Mr. IRELAND. If you were running one of the venture capital concerns that you had experience with, and their business fell in half or more, wouldn't you have some resources available to insure against a marketing program?

Mr. DRAPER. Well, the first thing I would do is I would find out what the reasons were.

Mr. IRELAND. Would you keep the staff on?

Mr. DRAPER. I sure would. Not in this case, because I have seen who they are and how they operate. It is a very effective staff.

Mr. IRELAND. With very little to do?

Mr. DRAPER. That is absolutely wrong, Mr. Chairman. We don't have little to do. There are a lot of things going on in that Bank.

Mr. IRELAND. What happens?

Mr. DRAPER. You are just wrong about that. We are not all sitting around waiting for work.

Mr. IRELAND. Let me ask you to complete the cycle. If your business went up again, which I assume you hope it will do, will you have to hire more people?

Mr. DRAPER. Well, that is variable. The loan officers, for example, in the direct credit area would be probably busier than they are today, but in the case of the vast majority of our operation, we have got 75 people working in the Treasurer-Controller's area—less than that now, I think it is down to about 65 in that area—collecting numbers, information for you, preparing data, and also working keeping track of loans and claims.

Our claims have been a great growth area, unfortunately, because of the Mexican problem, and Venezuela is coming up with major claim activity. So those people are processing loans that have been authorized before. There is a lot of activity that goes on there. It isn't the incremental new deal. We have people tracking major projects around the world. We have got 9 engineers, we have 10 economists analyzing countries; that doesn't stop. In fact, there has been a major increase in activity because of the dramatic impact of some of the financial crises around the world, particularly in Latin America.

So you know, all things considered, what I really recommend is that you and your staff come over. If you have a morning that is fine, if you have a full day that is even better; if you have an hour it would be great, because I would like to show you what we are doing.

Mr. **Ireland**. In the relative absence in the bank, would you be amenable to a sitdown visit with you, Mr. Nalen at OPIC, and Mr. Baldridge of the Commerce Department, who has got an awful lot of thrust along this line?

Mr. **Draper**. You bet. I am looking for help. By the way, we work with the Commerce Department a lot. We use a lot of their marketing programs and people and we have a man who has participated in their conferences around the country to try and reach small businesses about this export trading company program.

Mr. **Ireland**. Could we in addition——

Mr. **Draper**. I would be happy to do that.

Mr. **Ireland**. We hear good things about Mr. Boyd and what he is doing. Could we have a preliminary visit perhaps with Mr. Boyd and the new man who is from United Technologies?

Mr. **Draper**. Yes, sir, we would be delighted. We are looking for help.

Mr. **Ireland**. Along this line of marketing, both of the gentlemen from Tennessee, particularly the gentleman from the State agency in Tennessee, were talking about marketing and having the Export-Import Bank train some people so they could use them to help further their program. What do you think?

Mr. **Draper**. We think that is a great idea, and we encourage it. We personally met with the Tennessee group when they came into the bank, and we are encouraging them with everything we can in the way of training them and then hoping that they will encourage small businesses to come in and apply for some of our programs.

Mr. **Ireland**. They talked about applications, and throughout I have heard this from large concerns and small concerns as well. Is anybody in the bank working on some simplification of the application procedures? It seems to be a roadblock, and the procedures that affect large and small obviously affect the small guy more. Is anybody working on that, addressing that?

Mr. **Draper**. We work on it all the time. It is a constant program to make sure that they are as simple and effective as possible. FCIA, you know, is an organization that was made up of an association of insurance companies and we really didn't have complete impact on that because we were working with a private sector group, an association of large insurance companies. It was a little like an orphan, or I think many of the companies felt that it was like contributing to the United Fund, you know: they had to participate but they really didn't take——

Mr. **Ireland**. We understand, and you reconstituted it?

Mr. **Draper**. We are now a majority on the board and we have changed the management and the president and so on. That is going to be a much more marketing oriented, much harder hitting organization.

Mr. **Ireland**. In that regard, FCIA group has no responsibility for taking any risk, they have nothing at stake? Eximbank is taking all the risk? FCIA personnel throughout the branch offices will assume greater responsibility for marketing all Eximbank programs to small business.

Do you think that is in a sense a group of people not under the direction of the Bank or anything? It sounds as though you are going to turn the marketing over to these people who are really not any part of the Bank.

Mr. **DRAPER**. I realize it sounds that way, but it isn't that way. If you will recall, we are now a majority on the board of FCIA. We have changed the marketing personnel; the vice president for marketing is new, and the president is new. We have four branch offices and they are the closest thing to a marketing organization that Eximbank has ever had an association with, so we thought that was a logical place to perhaps get the word out on our small businesses. We are not proud. It doesn't have to go under the Eximbank label if it reaches small business.

Mr. **IRELAND**. For these FCIA people in the program which are not your personnel, are marketing programs very much of their job description? They are not out doing a whole lot of other things, too?

Mr. **DRAPER**. No, they are marketing insurance policies that go to small businesses. We guarantee those policies. Now, we take 100 percent of the risk, and so what they do very much impacts what our record is.

Mr. **IRELAND**. What they don't do impacts it too?

Mr. **DRAPER**. Exactly, so we want them to be a very aggressive marketing arm, and under the insurance companies, frankly, they were a very unimpressive marketing tool.

Mr. **IRELAND**. What is the new inducement for these people to be aggressive? You want them to be aggressive, I want them to be aggressive, and you are taking the risk. What is the nature of what they do that would make them aggressive in selling Eximbank? They have got all these other things to do. They sell Eximbank. They don't get an increase in salary, don't get another pen on their desk or picture on the wall. What is the carrot for? Why should they want to do that?

Mr. **DRAPER**. Well, one reason is that if I had five people on my Board, three of whom were from a company that said I would like to see you do more marketing of our programs, I would probably listen to them—three out of five.

Mr. **IRELAND**. I am talking about the guys out in the field. Would they want to do that?

Mr. **DRAPER**. But we will give the objective to the president of the company and let him design the incentive program.

Mr. **IRELAND**. He hasn't any incentive, he isn't going to get any more. Is the president going to get more? There is no hook in there, there is no carrot, is there? What can you tell the guy, "Sell Eximbank."

Mr. **DRAPER**. It is a very close relationship. They want to do a good job because the job they are doing is for us. It is for small business, and of the several thousand policies on the books we estimate that about a thousand are small businesses. That is where I think we have been underestimating to you who we are hitting and——

Mr. **IRELAND**. I am talking about the incentive.

Mr. **DRAPER**. I am, too.

Mr. **Ireland**. What is the incentive for those people to get out there and hustle Eximbank products?

Mr. **Draper**. Well, I am saying that the incentive is that that is the objective from the top and I don't mean it is going to be marketed exclusively through FCIA. The Eximbank small business programs are not going to be exclusively marketed through FCIA. All we are saying is that we can use the help. We would love it if you would send your newsletter out with our programs attached to it.

Mr. **Ireland**. What I would like to do is ask one more question. Then if I could, there are some questions that occur from testimony that will come later. We would like to submit these to you and then just get your answers.

Mr. **Draper**. Sure.

Mr. **Ireland**. Then we can move your day on and these people's day on. Before I leave that I am delighted that you have agreed to send us those numbers. They will be helpful.

There is one other number that struck me. Small manufacturing discount programs have an authorization of $100 million. Your estimate is an average $2½ million, which means for a whole year Eximbank was in 1983 expecting to make roughly 40 loans. Now, by Commerce Department estimates, we say there are an additional 20,000 good, healthy, aggressive American businesses that could be exporting. Certainly not all of those are going to need small manufacturing discount loans, but say only 10 percent, or 2,000 people do, and we have got a program here that estimates doing business with roughly 40 of them.

Isn't there something wrong? Is it a matter of just sitting down and saying, "We have this program." Is it just that nobody knows about it? What is the problem there?

Mr. **Draper**. Well, I think it gets back to the same problem. I think it is that a lot of small businesses don't know that we exist and I think the question is how much money you want us to spend to go out and represent them. I am trying to do it with the personnel that I am restricted to, and if you want us to go out and have extra money to market, to reach small businesses——

Mr. **Ireland**. Anybody that has shown isn't interested in extra money. I would tell you I would have reviewed and changed job descriptions of those 344 people.

Mr. **Draper**. We have done some of that.

Mr. **Ireland**. I appreciate your putting up with a long descriptive thing. It is helpful to us and I appreciate your willingness to send us those figures and particularly to respond back to some additional questions on this. You have been responsive to the dialog of this whole thing and we appreciate it and look forward to doing some more. We will talk some more about marketing.

Mr. **Draper**. Great. I will buy that. I will buy that lunch with Naylor and you.

Mr. **Ireland**. Let's stick Nalen with it.

Thank you very much.

Our next witness is Mr. Von Allmen, president of the W. C. Smith, Inc. of Philadelphia. Before we get started, I would like to call attention to Mr. Gulan, who is vice president of governmental affairs of the National Small Business Association. I understand you have to be out at 12 o'clock. Would you allow us to submit your testimony in full?

Mr. GULAN. Yes, sir.

[Mr. Gulan's prepared statement follows:]

PREPARED STATEMENT OF JEROME R. GULAN, EXECUTIVE VICE PRESIDENT, NATIONAL SMALL BUSINESS ASSOCIATION

First of all, I would like to thank the Chairman for the opportunity to speak today on the issue of small business and the Export-Import Bank. My name is Jerry Gulan, Executive Vice President of the National Small Business Association (NSB). The National Small Business Association has represented small businesses located in every state in the Union since 1937. We testify frequently before both the House and Senate Committees—32 times in the 97th Congress (1981-82) and 11 times so far in 1983. This is a function we regard as vitally important to the interests of 15 million American small business enterprises.

Foreign trade is a national benefit. The development of markets is as important to American business as the building of plants or the purchase of new equipment. Developing overseas trade markets is an investment in our future.

Mr. Chairman your successful leadership in the area of export financing for small business is probably as close as we will ever come to guaranteeing that this investment in our future will pay off. You are to be commended, and you are owed a debt of gratitude by the small business community for not only having the faith of your convictions, but for your willingness to carry them through.

Those of us sitting on this panel have wholeheartedly endorsed and supported your efforts in achieving a Congressionally mandated small business set-aside at the Ex-Im Bank. Speaking for my own association, I can say that we are proud to have been a part of the scenario which you orchestrated in getting this legislation passed, not only in the House, but in the Senate as well.

Moreover, the Eximbank regional loan officers must have the power to give approval within 24 hours. This is not wild eyed. It is merely competitive.

As bankers, loan officers' only effectiveness lies in their mandated power to make loans based on quick decisions, utilizing the available funds and at competitive rates. A small business borrower is only as strong as the lending power of his assigned loan officer. This is the lesson of the sogoshosha: the deal is consummated and fiscally guaranteed in one day.

In conclusion, Mr. Chairman, we again thank you for your leadership, devotion and support of small business. In return, we can assure you of our continued support for your efforts.

Mr. IRELAND. I am anxious for you to stay as long as you can to hear Mr. Von Allmen.

Mr. Von Allmen, if you would proceed, we are delighted to have you here.

TESTIMONY OF ERWIN VON ALLMEN, PRESIDENT, W. C. SMITH, INC.

Mr. VON ALLMEN. Thank you. I am delighted to be here today too. I suppose I should open by saying I am president of W. C. Smith, Inc. We are a small Philadelphia company with a couple of dozen employees, and we manufacture candy production machinery. We do anywhere from a quarter to half of our business in exports, depending on what any given year goes like.

My personal history is that under the previous administration, I was chairman of the SBA National Advisory Council Committee on International Trade, and presently I am Chairman of the Industry Sector Advisory Committee for Small and Minority Business, which serves the Secretary of Commerce and the U.S. Trade Representative in the area of international trade.

I hope that all those present will share the grief of a Philadelphian having passed through Baltimore on the way down on the train after the World Series 2 weeks ago.

Mr. **Ireland**. Think of those folks from Cincinnati that had Pete Rose and Perez and Morgan out there.

Mr. **Von Allmen**. It was like old home week. That was a very sophisticated conversation you just finished with Mr. Draper. I am going to come at you from a very different direction.

I want to go back to some fundamentals. You invited me to pass my opinions, unrestricted, on the nature of small business and its financing needs in exporting, and I would like to start with a fundamental comparison of what a big business is and what a small business is. I want to get away from the statistical descriptions in asset base, number of employees, and sales. I want to talk about the morphology of these businesses.

Let me use these definitions as the base for everything I am going to say hereafter.

Big businesses tend to have publicly held, highly fragmented risk capital bases. They are run by professional nonowners, and they are managed to obtain maximum profits and minimum taxes, to maximize the earnings, and sometimes dividends, per common share.

Small businesses tend to be closely held, with relatively small capital bases. They run by owner/operators, and they manage risk to preserve continuity of the enterprise, their salaries, their perks, and their personal security.

I submit, Mr. Chairman, that most of the failures we have seen in programs trying to provide incentives or support for small business in the area of foreign trade have failed to make these distinctions.

Let me jump to some reasons why businesses are small. If you look at the total numbers of all businesses in the United States, over 90 percent of them are small businesses, so the big businesses are the freaks.

But I think most small businesses answer to one of the three following descriptions: Many of them are local service businesses: Corner gas stations, the launderette, a firm of attorneys doing business in a town. These are essentially unexportable, except that if you go to London and walk down Oxford Street, there is a Wendy's on McDonald's hamburger stand on every corner, or you can find a Radio Shack subsidiary, Tandy, selling local consumer electronic goods all over Germany.

While I have to agree those are indeed a manifestation of big business exports, they are small businesses in character, all of which says even some of these local service businesses, properly packaged, can be reasonably exported. They have another interesting characteristic too. They tend to represent American consumer goods life, which is the envy of the entire planet, and so they have a special market appeal for those people who are willing to try to export them.

The second and perhaps the most important of these three categories is businesses which are just at the beginning of their growth curve, that is brand new businesses. I was fantasizing on the way down on the train this morning that it would be interesting if we could produce a time warp, as it were, of about 80 years, for the benefit of the Boeing Co. They publish a paper, the Invisible Exporters, which would have us believe that if we put our money with Boeing they will take care of a certain number of small companies that are their suppliers and thereby small businesses participate in exports.

But if we had a Boeing representative for this time warp, he could tell you he buys his bicycles from a small shop owned by two screwballs in Dayton, Ohio who have some contraption they have taken to Kitty Hawk this week, because over the next few weeks they think they are going to be able to make it work down there.

What I am saying is that the first export of an airplane from this country was not a Boeing 747, it was a gadget made by Wilbur and Orville, and was made out of wood and cloth, and I submit to you that today, and yesterday and tomorrow, there are all sorts of small businesses, men and women, whose ideas, whose imagination, whose enterprising spirit, are the kind of thing that will project 80 years from now this kind of opportunity, not only for America, but for the world.

How do we get these people into the foreign market?

I am intrigued with the propensity over at the Department of Commerce, where I serve and have a great deal of respect, to try to organize a handful of GS-13's to try to predict the future of which industries will grow and which will not, when in fact there are thousands of security analysts in all the major financial centers of the United States who are trying to do the same thing, and they go out and they chase companies, and they chase bright ideas.

What I am saying to you is that what we need in position from the Federal institutions and agencies are policies and programs which, when the marketplace decides that a little company has got a big idea, these small businesses and little people can avail themselves of off-the-shelf programs that can immediately be put to work t take these big ideas to the world.

We relentlessly look at Japan as a model which I find annoying sometimes personally, but they do this very successfully.

We have talked about people with enterprising spirit and imagination and foresight and vision who have small companies. Let's not talk about them anymore. Let's talk about people like me.

I have a small business, it is 54 years old. I am the second owner of it. It has been a 2-family owned business. It is derived directly from a business which is 120 years old, and it serves an industry which is 3,000 years old.

Why are we not such a big business? For the simple reason that the total world demand for the kinds of things I make is so small that we will never be a big business. There will never be a General Motors making candy machinery, but we chug along and make a week's pay and pay the bills from time to time, and we constitute a source of export capability that I think is woefully overlooked because everybody is going for the big bombs, as it were, the high techs.

Next door is a man who makes very specialized rubber gaskets. I have gotten him interested in selling them all over the world. I think there are a lot of these companies that have been left out of the stream of things. I want to come back to the importance of those in a minute because I want to now address the issue of what is to be gained by supporting small business exports. Maybe I can toss you a few ideas that haven't been completely thought through or haven't been obvious. I haven't heard some of them here today.

I say there are three things: No. 1, why don't we take a look at what small business exporters might do for the foreign trade deficit? Let's break it down into some figures that might be a little easier to manage.

Mr. Chairman, you quoted 20,000 companies as potential, but yet undeveloped exporters. That is interesting because that is the same figure I have used here in my notes. If one assumed each of those companies could be developed up to let's say $2.5 million export sales annually, which is about the sales size of a good size supermarket. If you multiply those numbers out together, small business could eliminate the entire U.S. trade deficit. Well, if I am only 50 percent wrong, that is still pretty dramatic.

Second, one of the great cases that is made for supporting exporting of any kind is what it will do for the horrendous unemployment situation we have right now. I have two statistics here, and I really don't want to get too deep into a dispute of the numbers. One is a study that indicated that small businesses create six times as many jobs as big businesses. The other says that small businesses employ over half the U.S. work force and represent nearly 40 percent of the gross national product.

As the furniture maker from Tennessee said earlier, small businesses by their nature are labor intensive. The fastest way to get people back to work through exporting is to put them in small businesses and not big ones, and I am always dumbfounded that all the institutions and agencies of Government seemed destined to divert our resources behind the weary smokestacks in Detroit and Pittsburgh.

The third point I would make is one that I have not heard or observed, but it seems obvious, and maybe I am wrong. One of the most prominent laments you hear in the industrial and Government scene about foreign competition is this doctrine of targeting, whereby some of these exhausted old industries we have sort of pinpointed by particularly Japanese competition, because they function so integrally successfully as a society. They aim at our steel industry, our automobile industry, and so forth, because they are such big fat targets.

Can you imagine foreign competition trying to target 20,000 or 200,000 American small businesses simultaneously? I submit to you that small business has an invulnerability to this kind of international trade tactic that nobody can touch, and I don't think it gets the proper recognition in the thinking of people who talk to this subject.

So, in these three factors, I think I would underscore that all of the elements of our international trade distress are potentially addressable by successful small business exporting.

We are here today to talk about the Eximbank. I have had a chance to look at the testimony of Jim Yonge, who was identified earlier by our Eximbankers, by Mr. Draper specifically, and Mr. Yonge spoke on September 27 of this year to the Subcommittee on

Commerce, Consumer and Monetary Affairs, of the Committee of Government Operations.

He made many statistics, but much of the success or the work of Eximbank was backed by anecdotal history; that is, references to support firefighting equipment sales, aircraft part sales. Mr. Draper today spoke about somebody making record sales overseas, all with the support of the Eximbank.

Mr. Yonge nevertheless acknowledged in his opening statement that because of the media, Eximbank has a notoriety as a big business bank. Lest you think that the Eximbank is a small business Christmas tree, I am going to put you through the excruciating story of another anecdote and this one doesn't involve the Alaska fertilizer company, which is in Mr. Yonge's story. It involves people in this room, and the anticlimax came 24 hours ago.

To go way back in history, in 1978, I made my first use of Eximbank through the FCIA program. After far too many weeks than I really like to remember—I think it was about 6 or 8 weeks—I finally had an FCIA insurance policy issued on a receivable for a sale I made to Mexico, and the thing went perfectly. The Mexican paid his bills, the policy served its purpose and the transaction was quite successful.

In early 1980, I went for another FCIA insurance policy for a receivable I wanted to originate in Canada, and after weeks and weeks and weeks of deliberations, I finally got the FCIA policy and was dumbfounded to find it had a 30 percent deductible in it. That is useless. I couldn't afford to lose 30 percent in the risk of nonpayment of this thing. I abandoned the sale, and the Canadian customer ultimately bought the equipment that I would sell from Denmark. Thereafter I decided not to get bogged down in the FCIA swamp again.

On August 4, I was invited and met at the Eximbank with Mr. Draper and some of his officials, including Mr. Yonge, Mr. Garrett Boyd who is behind us, and we talked. It was a very, very worthwhile kind of meeting. It was very open; we went over in great detail some of our thinking, some of which I have just repeated here, and some of our disenchantments. I mentioned at this time that I had been stung by this tremendous deductible in an FCIA policy, and I think the response was a little bit incredulous that this could have happened.

But the meeting broke up in good spirits; and on August 9, I wrote a letter to Mr. Draper sort of summarizing some of the meeting thoughts I tossed off in a much too disorganized fashion. With it I sent him some of the documentation from the unsuccessful application for insurance, and on August 30, Mr. Draper wrote me a very cordial response, and I will quote it, or just excerpt this quotation: "Let me suggest that you contact FCIA for a Medium-Term Master Policy." The initial letters in capitals indicating it is a proper noun, I would guess. On September 6, I wrote to the FCIA Office in New York City with a xerox copy of Mr. Draper's letter to me and the drift of the letter was, "This sounds like a good idea; how do I get this?"

Sure enough, I got a phone call back on September 9 from a loan officer there who, after much back and forth, said "I hate to tell you, there really is no such program." I was dumbfounded. After more back and forth she offered, "We have a program that may be something like that. I will send you an application."

I received a stack of papers down in Philadelphia on September 20, and my bookkeeper and my secretary and I spent the entire day filling out all the forms, making the projections, giving them rèsumes on me, providing all the financial statements, plus a check for $35 to apply for this, and I sent it back up to New York.

Sure enough, on September 22, this loan officer phoned back again, and in another very cordial conversation from the lady, said she did regret this but there really was no such program and there was nothing that could be done for me. She mailed the whole package back.

On September 26, I wrote Mr. Draper a letter and I said that I had gotten this response. I specifically said they had no such program. I think the letter was moderate in tone, and in fairness to Mr. Draper I did not request an explanation, or response, or an acknowledgment of any kind, and he didn't make one.

So that from here on in this narrative, Mr. Draper is no longer personally involved.

Three days later in September, I got a call from the supervisor of this same group, another lady, who said she would like to see me sometime, and she was coming down to be a speaker at the Pennsylvania National Trade Conference in mid-October, and would I see her there. I agreed because I was going to be a speaker also.

I met with her at the Pennsylvania National Trade Conference, and she said, "Would you please send back—maybe we can do something for you—would you please send back your product literature."

On October 3, which is when this trade conference closed, I went back and mailed the information back to her, with the message, "It is urgent; I would really like to get something from you because I am going to Europe on November 2, that is 1 month from today, and I am going on an important sales call. If I can take any kind of financing package over there, it would be a really important assistance to what I am doing."

She promised she would phone with whatever program they could come up with for me and then forward it to me in writing.

On October 13, after not hearing from her, I phoned her again. She said she had never gotten the product information, but she also needed the financials, and I said, "You mailed the financials back to me; didn't you make xeroxes?" She replied, "No." So I sent them certified mail and pleaded with her to get me an answer within, say, back to last Friday—I can't pinpoint the date right now—and so she said "OK, I will phone you by next Friday, and I will send a written proposal to follow."

Well, Friday came and went, and I never heard from this lady again. I am now packing bags to go to Europe next week. On Monday of this week, on my desk sat this three-quarter inch pile high of copies of forms and applications and letters and unanswered phone messages and the whole bit, and I said to my secretary, "Just pitch this back in the dead letter file."

One of the other things I did on October 13, when I was promised a phone call within whatever reasonable time it was going to take, I wrote a letter to a customer of mine in England and told him that I was going to be there with a financial program for a $50,000 sale he was interested in. I said, "I should have substantially more detail on this by the time I should come to England in early November," et cetera.

So I asked him to telex me back if he thought much of it. Well, I am going to stop at this point, and you have heard a lot back and forth on what has happened to me, but I want to talk about what is really going on. This is not necessarily at Eximbank, because they don't sell anything; they don't get orders; don't pay suppliers; don't pay my employees. What is going on in my life and my company while all of this byplay is proceeding?

This morning on my desk is the usual stack of stuff. Some of it has been there for weeks, some for a month, and some just arrived. It says the best welder has quit; the bookkeeper is pregnant and going to leave in 60 days; we are behind schedule preparing for a major international trade fair; I have three big proposals I have to get out to Japan this week; I have lost a sale in the United States for the single biggest job I ever proposed to a British company that somehow has obtained slave labor and free materials, plus this stack of stuff from the FCIA.

At that point I looked at it and decided what I think a lot of small business people must decide, I cannot continue with the demands on my time, with the other pressures that are on me, in the Laurel and Hardy scenario with this Charlie Chaplin insurance agency. There are just too many other pressures on what I have to do and that the support I am trying to get, I must be able to get some easier way.

Now, I wanted to quote again from Mr. Yonge's testimony, where he is talking about the small manufacturer's discount loan program in which he says, "We have a specific budgeted amount of $100 million in both fiscal years 1983 and 1984. Although we have not turned down any application this year, we have used only $22.1 million of this amount."

I invite you to consider was I turned down with a 30- or 40-percent deductible in my original FCIA insurance policy? Now, after 2 months of floundering, they can't make a $50,000 decision that I have to make every day on a draw and shoot basis.

Now comes the anticlimax. Yesterday, 24 hours ago, I got this telex from the man I wrote to in England who says, "Thank you for your letter of October 13. Yes, very interested in your financial package. As soon as you have something that sounds tempting, I would look forward to seeing you early November."

I can now go over there emptyhanded and say, "If I was dealing with your government, we would have a deal; but I am not, I must deal through mine."

Why don't we set aside some of the obvious bitterness and try to look realistically at FCIA's problem and Exim's problem and my problem at the same time, because I want to go back to the original definitions I made of small and big businesses. Fifty thousand dollars is about the sale of the price of three Oldsmobiles, and they would disappear into General Motors' P&L like petty cash on Monday morning. The profit on $50,000 to me is a year's tuition for my older son in medical school.

So you are looking at the classic confrontation of the bureaucrat's mentality against the peasant's mentality. If Mr. Draper and I can, with human sympathy and compassion, look at each other's problems, I do see his. I hope he sees mine. Maybe Mr. Draper is thinking right now he wished this fellow would go away with his little deal he is making such a big issue of. In the meantime, I am thinking, "How far does my responsibility extend into this organization called the FCIA to get something done?"

We have heard about outreaches from Eximbank. You can't even reach into that place.

Mr. Chairman, let me leave you with a suggestion that if you make a set-aside of some kind under the Eximbank, you put in some kind of distant early warning device to make sure the funds are not set so far aside that nobody can reach them, because I think that may be one of the real hazards.

I truly mean this, if there was some way I could help FCIA or Eximbank come to the aid of small business, I would be delighted to try. I feel as though I have guinea pigged myself twice, 3 years ago and within the last 30 days, and have sort of exhausted the remedies of dealing directly. Maybe the Congress can do something.

So with that, I think I will close for anybody's questions.

Mr. IRELAND. Well, thank you very much, Mr. Von Allmen. I appreciate your testimony. I think it is the kind of thing that we hear, perhaps with not nearly as much insight, across the country when we listen to small business and large business alike.

Mr. VON ALLMEN. I think that I am sure perhaps Mr. Draper is pretty sore at me right now. I wouldn't blame him probably, but I think some of the questions he raised at the meeting on August 4 were very sound ones. They were in the area of how do we come up with a delivery package or delivery system? Other people have testified on the same subject, how do we come up with delivery systems that will reach the small business community?

I have heard a conversation about using commercial banks or the SBA loan officer, for example. Mr. Draper just suggested that we use the FCIA loan officers. I am going to leave that without any more comment than I did for the last 20 minutes.

But if we use SBA loan officers or commercial loan bank officers, I think there is a basic logical fault there. SBA loan officers see SBA as a source of last resort when it comes to financing, and you get Mafia-type security agreements into loans. But if you look at who has what bargaining position here, it is the Federal Government, who want small business people to export, quite rightly in order to solve the problem of foreign trade deficits and unemployment.

I have been at the SBA as a financing source of last resort, and they rescued my company at a time of natural disaster. I have the greatest respect for those people and did a lot of volunteer work for them too. But that is the wrong channel and those kinds of bankers are the wrong approach. They are better trained to nail a small businessperson's pelt to the wall if he has an export program that breaks down.

I talked about managing risk, and as long as you can keep the risk minimized, you have the most likelihood of successful programs.

I think it is worth while to look at the programs that are available in other countries. There is one available from the British Overseas Trade Board [BOTB] which is called the export marketing entry guarantee program, and I have the leaflet here somewhere, but, in effect, puts up to $375,000 for a small business to do the whole exporting package, market research, trade shows, the whole bit, out of which the British Government is paid back on essentially as a royalty on sales. It doesn't say if you don't pay it back the BOTB will now foreclose on all its security agreements, take your life insurance, your home, your business, your assets, your children's savings accounts, and the whole bit.

What kind of loan is that? When you hear the slogans about the Government is your partner, who needs that for a partner?

When it comes to delivery packages, the delivery packages are coming from the wrong source. Why can't the delivery packages come from people who are interested in getting people to export and not to secure everything to the wall? Why not use people like the trade development specialists from the Department of Commerce to promote and market these financing programs? They are people who are far more sensitive.

By the way, my experience with those people is that they are generally very, very good and helpful. Certainly under the Philadelphia office they are. But these are people who are interested, first of all, in the export qualifications of a prospective exporter and they also know how to sell him a financial package.

Mr. Bilirakis asked if there is a risk of making money available and thereby tempting a person to export without proper management tools between his ears. That is always a danger. If you loan money to buy a building, there is no insurance the borrower is going to keep a good roof on it.

Since exporting does have a certain amount of specialized skill, letting the prequalification stages be handled by people who know exporting, I think, makes more sense than letting it be done by people who know the Universal Commercial Code in terms of getting all the airtight liens they can on everything that the fellow owns.

Mr. IRELAND. It goes to the thrust of our communication gap. What I am trying to say, as you did, is that the FCIA guy is not really going to be hustling the product. The SBA combination bank commercial lending thing is dealing with the last resort—the marginal folks, to begin with. This is hardly what we are talking about in marketing.

I would like to ask you if you would let us have the information on the British program. I think in our file we have something about it. Perhaps this is updated. But I would like, one, to have that in the record, because I think it exemplifies what you are talking about, and two I would ask the staff, for the benefit of the members of the committee, to ask the Eximbank to comment on that British program inasmuch as that might be helpful to them to see and understand what the private sector is talking about when they talk about marketing. Hopefully that will be a help.

Mr. VON ALLMEN. I will mail it to you.

[The information referred to above is being retained in subcommittee files.]

Mr. IRELAND. Very well.

It is gratifying to me and to others to know the administration thinks highly of your philosophy, your energy, and your position as the chairman of ISAC No. 14. It is quite a remarkable thing that the Commerce Department is doing along this line, and I know you make a very large contribution. I think that should make us all feel good.

I would note that I will be with you on the 17th, the date of your next meeting.

Mr. VON ALLMEN. I am absolutely delighted. There are a lot of hard-working, dedicated people who are at their own expense gathering here in Washington. For a small business person from Arizona, that is a fair bite, and the kind of recognition that you will bring to our meetings I think is important to us.

Mr. IRELAND. Maybe we can induce the marketing folks at Eximbank to come.

Mr. VON ALLMEN. I thought maybe we could get Mr. Draper to come over.

Mr. IRELAND. Well, we thank you very much. You have hit the nail on the head and I appreciate your being with us. I look forward to seeing you.

Thank you.

Mr. VON ALLMEN. Thank you, Mr. Chairman.

Mr. IRELAND. Our next witness is Mr. Harry Katrichis, Associate Chief Counsel for Economic Regulatory Policy, Office of Advocacy, Small Business Administration, and welcome.

TESTIMONY OF HARRY KATRICHIS, ASSOCIATE CHIEF COUNSEL FOR ECONOMIC REGULATORY POLICY, OFFICE OF ADVOCACY, SMALL BUSINESS ADMINISTRATION

Mr. KATRICHIS. Mr. Chairman, I would like to thank you for the opportunity to appear before the subcommittee today on behalf of the Chief Counsel for Advocacy.

My name is Harry Katrichis. I am Associate Chief Counsel for Economic Regulatory Policy in the Office of Advocacy of the Small Business Administration. My staff is currently involved in an assessment of a number of policy issues affecting small business exporting participation. Our assessment is designed to provide, among other things: First, a catalog of impediments, both domestic and foreign, to small business participation in export trade; second, conclusions based upon identified impediments and currently available solutions and relief; and third, recommendations for corrective measures, if appropriate.

Concurrent with our assessments, we plan to encourage the timely dissemination of information to small businesses regarding the various forms of public and private sector assistance programs that are available to them. Additionally, we have and will continue to assist small businesses in gaining access to these assistance programs.

While the focus of today's hearing is the Eximbank and its role in small business exporting, I would first like to make some general observations of some of the impediments to small business participation in exporting.

The Department of Commerce estimates that there are approximately 25,000 small businesses in this country that produce exportable goods and have the potential to export them, yet do not engage in export trade because of a number of problems associated with exporting.

One of the primary problems of small businesses interested in exporting is gaining access to the necessary marketing information which would allow them to locate markets where their products would be well received. Unlike large firms that can support extensive marketing research for their products, small firms are often unable to discern exactly where and under what conditions they can market their products. The Department of Commerce has done a commendable job thus far, accumulating needed data on marketing opportunities for both large and small businesses. These efforts need to be continued and expanded in order to reach small firms that have exporting potential.

One of the problems we have discovered recently is that there is no breakout, in terms of size, for the information available on exporters. The Commerce Department does keep very good statistics in terms of the industries where exporting occurs, but they aren't broken out by size. The only area where size information is available is the area where the particular product requires an export license.

This task is complicated by the historic reluctance of small business to get involved in export trade. Until recently, small firms in this country met all the needs of marketing their products and recovered healthy returns without ever turning to export markets. With the heightened economic interdependence of today, small businesses are beginning to recognize the new opportunities for long-term success and growth that are afforded by turning to the global market. In developing extensive and cohesive information on the markets and marketing systems of other nations, both Government and the private sector can help create a better understanding of off-shore marketing for small firms, thereby encouraging small business exporting by making small firms more comfortable in their understanding of this relatively new activity.

Another major problem for many small firms seeking to export is their limited understanding of the mechanics of exporting. This includes everything from currency exchange, marine insurance, and foreign letters of credit, to the laws, regulations, and customs procedures of the country to which one would like to export. While a number of Government entities provide portions of the kinds of information needed, there should be a drive at this point to coordinate and consolidate this information on how to export.

Small firms, in essence, need a little extra helping hand in terms of the dissemination of this kind of information. Exporting for small firms is somewhat new, and because it is new there needs to be more guidance and more assistance. Encouraging small businesses that may, at the outset, be somewhat reluctant to involve themselves in some of the risks associated with shipping products to new and distant markets is the key.

With that background, I will now direct my remarks to the special financing needs of small business exporters and the focus of today's hearing, the relationship between the Eximbank and the small business community.

The relationship I wish to discuss today is that which lies in the future. We are hopeful that the number of small businesses involved in exporting will increase as a result of the congressional expression contained in both the House and Senate versions of the Ex-Im Reauthorization Act of 1983. We at the Office of Advocacy are very pleased, Mr. Chairman, with your efforts to encourage the Eximbank to better tailor its programs to small business exporters.

Eximbank's support for this new direction is anticipated by the Office of Advocacy and we look forward to being of whatever assistance possible to the Eximbank as they implement their new programs.

The Office of Advocacy has spoken with both small firm exporters and small firms seeking to export. In large part, they believe that their financing needs are not always met by the private sector because their relatively modest export sales are lost among those of industry giants. They do not themselves possess the requisite knowledge and skills necessary to acquire financing and insurance or to arrange them for foreign customers. Among Government export programs, the Eximbank's financing authority offers important opportunities to expand small business exports.

I will now turn to some of Eximbank's ongoing efforts and suggest ways in which the Office of Advocacy might assist Eximbank in increasing their involvement with the export financing needs of small business.

In light of the expected increase in Eximbank activity directed toward small business, I would expect that an expanded program of education and training by the Eximbank's staff will prove important. To assume that international financial services are available to small businesses from larger banks having correspondent relationships with a small business' bank is to overlook the commercial priorities of larger banks.

Small businesses, especially when attempting to enter export trade for the first time, require more attention and assistance than do the large and more sophisticated customers of large banks which have international finance departments. Small businesses are typically involved in smaller deals than are large businesses. Larger banks, therefore, give priority to those customers from which larger returns may be realized, with a lesser expenditure of resources. Consequently, one important aspect of an expanded Eximbank service to small business may be to move the delivery point for export financial services to smaller regional and local banks through education and training by Eximbank staff.

We at the Office of Advocacy have the ability to assist Eximbank in reaching small business lenders through our contacts with small bank organizations across the country, and we welcome the opportunity to put our outreach capabilities at Eximbank's disposal at the earliest opportunity.

The functions of Eximbank's current small business advisory service [SBAS] will likely need to be expanded in order to meet the informational needs of small business in the future. We are prepared to offer the Eximbank our assistance in upgrading this service based upon our experience gained from operating our own broad-based small business information service utilizing toll-free income telephone lines. In its most recent year of operation we have handled in excess of 49,000 calls from small businesses covering a wide range of small business problems. We have a very well-staffed operation and we get information out to the small businesses instantly, right at that point.

Our office looks forward to assisting the Bank's staff finding solutions to any problems affecting the Bank and its service to small business.

In particular, and in addition to the considerable resources of SBA's program offices, we have the ability to assist Eximbank in reaching small business leaders and advocates across the country. Additionally, the Office of Advocacy's economic research program has developed extensive information on small firm financial characteristics that may be helpful to Eximbank's future financial assistance to small business exporting, and we look forward to sharing this information and our expertise with Eximbank.

As I indicated in my opening comments, Mr. Chairman, we intend to formulate various initiatives in financial and other areas of assistance to small business exporters.

Our efforts in the area of export trade have expanded considerably in recent months. One of the things we have been involved in recently is trying to find sources to develop the information on who is exporting now from the small business community, and where the potential exporters are, and what kind of products they have.

In the area of tax code provision for domestic international sales corporations, or DISC's, we have worked steadily with the Office of the U.S. Trade Representative to develop workable alternatives to the present system that are more advantageous to small exporters seeking to limit some of their tax burdens. We are now in the process of soliciting more information from knowledgeable small firm exporters regarding this issue.

Since the passage of the Export Trading Company Act, the Office of Advocacy has been active in providing information to the small business community on some of the potential advantages of the act for small business. We have also provided an important function in counseling small businesses on the relative merits of using an ETC or alternative marketing device for their particular purposes.

We also look forward to funding research studies on this important priority of small business exporting in the future. We would indeed welcome any suggestions on particular research topics that this subcommittee considers appropriate.

We look forward to joining with other agencies, public and private, and assuredly with your subcommittee and the Congress, in making the entire world the marketplace for the products of the small businesses of this Nation. That concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions which you or the other members of the subcommittee may wish to ask.

Mr. **Ireland** Thank you so much, and again thanks for joining us today.

Mr. Bilirakis, do you have a question?

Mr. **Bilirakis**. Mr. Katrichis, you have mentioned the three particular areas in your testimony, catalog of impediments, et cetera.

It would take a high level of coordination and cooperation with the Eximbank to be able to pull these off, would it not, once you have come up with your assessments?

Mr. **Katrichis**. Particularly in the financial area, yes.

Mr. **Bilirakis**. What sort of experience have you had up to now in terms of cooperation?

Mr. **Katrichis**. We have not as yet gone to Eximbank.

Mr. **Bilirakis**. You haven't gone to them at all, you are still assessing?

Mr. **Katrichis**. Right now we are working with a number of associations—the National Governors' Association, the National Association of State Development Agencies—and we are saving the financial area for a little further along. We are working with things like differences in freight rates. We are looking at differences in intellectual property laws. Especially in the high-tech areas, small businesses need to know what kind of protection they have in terms of intellectual property rights to products that are exported overseas and then may be produced in the importing country. There is a high risk of loss of intellectual property rights.

Mr. **Bilirakis**. Well, we in Congress often are confronted with constituents' problems, questions, complaints, if you will. Let's go back to Mr. Von Allmen's testimony regarding one particular area I was able to hear. In the process of looking into it, as the Congressman for the particular small businessman, if you will, we would contact Eximbank of course, but should we also contact your office? What is your role as far as those areas are concerned? That is what I am trying to get down to.

Mr. **Katrichis**. At the Office of Advocacy, I think one of our roles is to assist small business and Congress in looking into other agencies' efforts in terms of supplying services to small businesses. So I think in that situation, our role would be somewhat of an independent oversight role; where, if a small business did have problems, they would come to you and then we would talk to Eximbank.

Mr. **Bilirakis**. The toll free number you did not give us but alluded to in your testimony, is a number in your particular department?

Mr. **Katrichis**. Yes, sir.

Mr. **Bilirakis**. You encourage small businessmen to use that number regarding any of their problems?

Mr. **Katrichis**. Yes.

Mr. **Bilirakis**. Would they use that number for purely informational purposes?

Mr. **Katrichis**. Sometimes they are informational questions, sometimes other problems. We have a staff of four people right there, plus a supervisor, and if it is a problem that can't be handled with the resources available at our answer desk system, a report is drawn up and they are referred to the appropriate advocacy staff person. They are usually handled within a couple of days.

Mr. **Bilirakis**. Thank you, sir.

Mr. **Ireland**. Thank you.

I appreciate the breadth of your testimony and have just one area that I would like your comment on from the SBA point of view. We had today some people from the State of Tennessee and, as you are well aware, there are other local and State initiatives to help small business export. Some are looking to the SBA, quite frankly, for assistance of one form or another: money, information, know-how. Can you comment on the SBA's view of this growing activity in the States?

Mr. KATRICHIS. We recently concluded, out in Minneapolis, our fifth annual Conference on the States and Small Business. That ended about 2 weeks ago. At that particular meeting we had over 500 in attendance, including State legislators, and persons from the executive branch of a number of States throughout the country.

At that conference, there was some discussion of the States and exporting at the general session and there was one workshop dealing solely with the States and exports. We look forward to working with that information, and working with the contacts that we developed at this particular conference.

Additionally, we recently put out a State directory on a number of State and local small business services. Included in the directory are many special export services provided by the States. We have the names and telephone numbers of the contact people involved and, to some extent, a brief description of what they do on a general basis.

As I mentioned in my testimony, we have also recently met with representatives from the National Governors' Association and representatives from the National Association of State Development Agencies. We are working toward developing some form of information base that we can use as a tool, looking to the future.

We have also met with representatives of export trading companies and export management companies, as well as representatives from port authorities. We have had a number of meetings with representatives from the New York Port Authority in terms of their ongoing efforts to provide specialized services for small businesses.

Mr. IRELAND. One last question. Would you agree that the SBA, as the lender of last resort, which in a sense it is, is not well positioned to help the marketing of Export-Import Bank services?

Mr. KATRICHIS. Well, one of the problems with, for example——

Mr. IRELAND. I want to make sure that we are addressing this to marketing Eximbank services and SBA's limitations as far as doing the actual marketing.

Mr. KATRICHIS. In terms of the experience, Eximbank by far has the experience in this area that SBA does not have. For example, the export revolving line of credit program at SBA is relatively new. Another problem is that that particular line of credit is geared for promoting exports in terms of developing a market, not for an ongoing activity. So what the SBA has to offer in terms of their loan guarantee programs falls far short of what Eximbank has to offer. I think that the expertise on export financing for small businesses lies within Eximbank.

Mr. IRELAND. If Eximbank is relying on the SBA, they are leaning on a weak reed as far as marketing aspects of it are concerned?

Mr. KATRICHIS. In terms of the financial services.

Mr. IRELAND. All Eximbank has is financial services.

Mr. KATRICHIS. What I am saying is that part of the export package, from what I understand from Mr. Draper's testimony, would include a lot of other management assistance on exporting besides the financing problem. I think that when going to small businesses, especially small businesses that haven't exported before, it is very important to go out of our way to inform them in a lot of other areas that don't include financing.

Mr. **Ireland**. The key to the Eximbank is they are supposed to be lending money. They have a lot of excuses why they haven't done that, and they are going to train a lot of people for this, that, and the other thing. The key is theoretically they have the expertise in the financing and that is their sole product. Instead of going out and marketing it themselves, with their knowledge, they are relying on FCIA that has, particularly now, even less interest in marketing it. They are also relying on the SBA, which I totally agree is a lender of last resort. And until we passed a little law 2½ years ago, they had little expertise in financing.

So, we have a tendency to completely ignore, and this is what you pointed out, the fact that the financing is what they are supposed to be all about, and yet nobody is marketing. They are not using their staff to market it, and they are reaching out to people that may be in a position to carry out some communications, but aren't in charge of the programs and do not have that kind of financing know-how. Would you agree with that?

Mr. **Katrichis**. I think one of the most important things that the Eximbank can do now, in terms of marketing their services, is going to these small regional and local banks. In the past there may have been a situation where most of the information that Eximbank had to offer was distributed through larger banks and international financial specialists at larger banks. I think that the efforts that Mr. Draper spoke of today in terms of increasing their outreach activity and going out into the field and marketing the services to small and regional banks are very important.

Mr. **Ireland**. Any further questions?

Thank you very much.

Mr. **Katrichis**. Thank you.

Mr. **Ireland**. We have in the audience Mr. Garrett Boyd who was formerly with the SBA and is now with the Eximbank. We have heard very good things about him from time to time. Could we ask you a question or two, Mr. Boyd?

Mr. **Boyd**. Yes, sir.

Mr. **Ireland**. I know your background with the Small Business Administration, and what you are trying to do at Eximbank. From what the people from Tennessee suggested, part of what we heard from others, and just now from the gentleman from SBA is, that training domestic bankers is a real need along that line.

Now, is there anything afoot right now? I don't mean training the people at Chase, or First National City, or Bank of America. We're talking about smaller and medium-sized banks—training them so they can participate in programs such as in Tennessee. Is there in actuality any kind of effort going on at Eximbank to do that kind of training?

TESTIMONY OF GARRETT BOYD, SPECIAL ASSISTANT TO THE FIRST VICE PRESIDENT AND VICE CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Boyd. Yes sir.

Mr. Ireland. Before I turn you loose with that long question, I want to clarify that I don't mean an occasional seminar somewhere. Do you bring them into the bank or do you bring them into the office and really give them some gutsy training? That is what I am after.

Mr. Boyd. Yes, we have an ongoing program that is on a monthly basis. It opens with a 2-day seminar for the banks and they are invited to come into Washington. We go into all of our programs in depth. It is not a total mechanical process to where they could go out and immediately know exactly what kind of credit needs we might have on each individual case. But they would be able to know generally what is expected and recognize that we would be going back to them for additional information, that we would need to make a credit judgment.

In conjunction with the seminars that Chairman Draper spoke of, we are going to have breakfast sessions with banks in the community prior to the seminar which will provide the opportunity to introduce our programs there. We will have follow-on calls with not only the banks of the area but also exporters in each of the areas where we are going to have the seminars that he alluded to earlier.

Mr. Ireland. Could we have for the record the extent of that activity during fiscal year 1983? In other words, places where these seminars were held, places where those preliminary meetings with bankers were, how many people attended, and the number?

Mr. Boyd. These are our upcoming seminars that are scheduled.

Mr. Ireland. We haven't had any yet?

Mr. Boyd. We have had an ongoing program of the 2-day seminars on a semimonthly basis.

Mr. Ireland. Could we have a description of the upcoming ones and where they are intended to be, and then for 1983 the full work done in this regard, the 2-day seminar?

Mr. Boyd. Yes, sir.

Mr. Ireland. And how many people attended?

Mr. Boyd. Yes, sir. We can give you a historical breakdown and what is projected.

[The information referred to above follows:]

EXPORT-IMPORT BANK SMALL BUSINESS SEMINAR
SCHEDULE AS OF NOVEMBER 22, 1983

Date	City
November 28, 1983	Rochester, NY
December 13, 1983	Cleveland, OH
January 24, 1984	Cincinnati, OH
January 26, 1984	Detroit, MI
February 9, 1984	Baltimore, MD
February 15, 1984	Philadelphia, PA
February 16, 1984	Hartford, CT
February 23, 1984	Birmingham, AL
February 28, 1984	New Orleans, LA
February 29, 1984	Houston, TX
March 1, 1984	Dallas, TX
March 8, 1984	Chicago, IL
March 9, 1984	Minneapolis/St. Paul, MN
March 29, 1984	Atlanta, GA
March 30, 1984	Miami, FL
April 9, 1984	San Diego, CA
April 10, 1984	Los Angeles, CA
April 11, 1984	San Francisco, CA
April 23, 1984	Milwaukee, WI
May 8, 1984	Kansas City, KS
May 9, 1984	Des Moines, IA
May 24, 1984	Portland, OR
May 25, 1984	Seattle, WA

IN-BANK BRIEFING PROGRAM FOR 1984

Eximbank offers a two day briefing twice monthly designed principally for U.S. commercial bankers and representatives from foreign financal institutions. The sessions are built around a succession of informal meetings with Eximbank officers, starting at 9:15 a.m. and are designed to familiarize the participants with Eximbank's facilities and methods of operation.

Anyone interested in participating in the program is invited to contact the Office of Export Counseling and Briefing.

Due to limited space, reservations are required for attendence

Please contact:
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, D.C. 20571
Tele: (202) 566-8966

BRIEFING SCHEDULE FOR 1984 - Tentative

January	9-10	(Monday-Tuesday)
	26-27	(Thursday-Friday)
February	9-10	(Thursday-Friday)
	27	(Monday) Annual Bankers Conference
March	5-6	(Monday-Tuesday)
	22-23	(Thursday-Friday)
April	9-10	(Monday-Tuesday)
	26-27	(Thursday-Friday)
May	7-8	(Monday-Tuesday)
	24-25	(Thursday-Friday)
June	4-5	(Monday-Tuesday)
	21-22	(Thursday-Friday)
July	9-10	(Monday-Tuesday)
	26-27	(Thursday-Friday)
August	16-17	(Thursday-Friday)
September	10-11	(Monday-Tuesday)
	20-21	(Thursday-Friday)
October	8-9	(Thursday-Friday)
	25-26	(Monday-Friday)
November	8-9	(Thursday-Friday)
	26-27	(Monday-Tuesday)
December	10-11	(Monday-Tuesday)

IN-BANK BRIEFING PROGRAM

Eximbank offers a one day briefing once a month designed principally for U.S. exporters. The sessions are built around a succession of informal meetings with Eximbank officers, starting at 9:15 a.m. and are designed to familiarize the participants with Eximbank's facilities and methods of operation.

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BRIEFING SCHEDULE FOR 1984
Tentative

March	13 *
April	19
May	17
June	14
July	19
September	6
October	18
November	15
December	20

* Annual Exporters Conference

Eximbank makes available information on its two-day briefing sessions for commercial bankers in a number of ways. In every appearance by a Bank speaker, Eximbank's orientation programs are specifically noted and written information is made available in the general literature provided or on specific request. When a speaker is addressing a bank-oriented group, the banks are specifically invited to send their employees to the Eximbank briefing programs.

Eximbank also holds annual conferences for bankers and exporters. These larger meetings are designed to provide the attendees with policy updates on Eximbank plus offering afternoon workshops to cover the more technical and detailed operation of the Bank's programs. Some 400 bankers, representing all regions of the country, attended the February 1983 Bankers Conference. Information on these annual meetings is distributed widely by the Bank through its various mailing lists and other information channels.

A specific effort to contact banks which normally finance small businesses is being undertaken in conjunction with the Eximbank Small Business Seminars scheduled throughout the United States. The Eximbank representatives at these meetings are scheduling breakfast meetings with the local bankers in the areas of the seminars, as well as afternoon calls at specific banks servicing the smaller exporters who attend the conferences. Further efforts are underway to provide information on the Bank and its programs to those banks other than the some 400 now using Eximbank's programs.

IN-BANK MEETINGS FOR FISCAL 1983

DATE	GROUP	NO. OF ATTENDEES
OCTOBER		
1	Director, Deputy Trade Center Miami, Florida	1
7-8	Regular Bankers Seminar	35
12	Commercial Counselor, DoC	1
12-13	Arab Monetary Fund	2
13	Consumer Power Company, Michigan	2
15	Overseas Banker Conference Chemical Bank	27
27	Institute of Int'l Education	28
NOVEMBER		
3	Mercantile Bank, Dallas	2
4-5	Regular Bankers Seminar	25
5	OPIC Interns	
5	Commercial Attache, Australia	1
5	Commercial Attache, Argentina	1
10	American University, Dept of Economics	
15-16	Regular Bankers Seminar	39
18	Regular Exporters Seminar	12
DECEMBER		
8	Security Pacific International	2
9-10	Regular Bankers Seminar	26
13	Int'l Banking Group, Irving Trust	16
16-17	Regular Bankers Seminar	20
JANUARY		
5	Foreign Commercial Service, DoC	1
5	Director, Export Development, Brazil	1

6	State Planning Office, Alabama	
13-14	Regular Bankers Seminar	23
19	Chemco, Houston	1
20	Regular Exporters Seminar	15
20	Shell Chemical Company	1
20	Pecten Chemicals, Inc.	1
FEBRUARY		
3	Industrial Bank of Iceland	1
10-11	Regular Bankers Seminar	23
MARCH		
7	Int'l Banking Group, Irving Trust	12
9	Institute of Public Service University of Connecticut	
10-11	Regular Bankers Seminar	30
14	Central Bank for Cooperatives	1
14	Foundry of Mali	1
15	Thompson Trowler Vessel Sales Corp.	3
15	American University Students	
24	Commercial Counselor, Japan	1
24	Reed Drill Officers, Texas	
24	S. Ahmed Abassi & Company, Egypt	1
24	International Trade Management	1
24	Holstein Friesian Service	1
29	2nd Secretary/Commercial, Venezuela	1
31	Lynch Communication Systems	1
APRIL		
1	Seminar for International Bankers Chase Manhattan Bank	32

5	International Finance Students Ben Franklin University	
7-8	Regular Bankers Seminar	28
11	Export-Import Bank of Korea	2
14	Regular Exporters Seminar	22
15	Banco de Vizcaya	1
18-19	Regular Bankers Seminar	18
25	"Made in USA", Citicorp	17
MAY		
4	Ministry of Planning, Brazil	1
4	Jornal do Clobo	1
4	Folha de Sao Paulo	1
4	Secretariat of Planning and Economic Commentator	1
5-6	Regular Bankers Seminar	18
9	Technafric, Mali	1
10	Commercial Officer, DoC	10
10	National Association of Importers and Exporters	1
10	Editor of Transformacion, Mexico	1
10	Mexican Businessmen's Council for International Affairs	
11	Air Finance Journal	1
11	Commercial Officer, DoC	1
12	Regular Exporters Seminar	7
16-17	Regular Bankers Seminar	18
18	Frank Cullen and Associates	1
25	Commercial Officer, DoC	1
26	Community College, Iowa	1

27	Overseas Bankers Seminar, Chemical Bank	
27	Eimco Process Equipment Company	1
JUNE		
2	Ecomonic Planning Board of Korea	1
3	WEMCO	1
6	International Surveyor Program Irving Trust Company	14
7	Export-Import Bank of China	1
8	Commercial Officer, DoC	1
8	Triple F	1
8	Export-Import Bank of China	1
14	Commercial Officer, DoC	1
20-21	Regular Bankers Seminar	21
21	University of Michigan	1
22	Chamber of Commerce and Industry	1
23	Istanbul Chamber of Commerce	1
23	Seminar in America Morgan Guaranty & Trust Company	35
29	Commercial Officer, DoC	1
29	Senior Secretary, Saudi Arabia	1
29	Commercial Counselor, DoC	1
29	Pioneer International	1
JULY		
1	Assistant Commercial Attache, China	1
1	Vice Counsel, China	1
13	US Dept of Commerce	2
13	Granger Associates	1
18	OGEDEP, Zaire	1

20	Summer '83 Interns, OPIC	25
28	M/A COM, Inc.	2
28	Commercial Attache, DoC	① 2
29	Commecrial Attache, DoC	1
AUGUST		
9	Moroccan Center for Promotion of Exports	1
9	Bank Executives from Guinea	③ 4
11	Regular Exporters Seminar	6
12	European-Asian Bank	1
15	Ministry of Commerce, Nigeria	1
16	Republican Committee for Foreign Affairs Yugoslavia	1
19	Swedish Government Commission on Export Promotion Activities	3
22	Burks Enterprises, MI	2
24	Commercial Officer, DoC	2
24	Commercial Officer, DoC	1
24	Commercial Officer, DoC	1
26	Foreign Service Officer	1
29	Panamanian Association of Business Executives	① 2
SEPTEMBER		
15-16	Regular Bankers Seminar	25
19	Commercial Officer, DoC	1
22	Bank Hapoalim	2
26-27	Regular Bankers Seminar	23
28	CertainTeed Corporation	2

OUT-OF-BANK MEETINGS FOR FISCAL 1983

DATE	LOCATION	GROUP
1982		
Oct 4	Washington, DC	Young President's Organization
Oct 5	Washington, DC	DoC/East Asia & Pacific
Oct 15	Jamesburg, NJ	DoC/Export Seminar
Oct 16-20	Atlanta, GA	American Bankers Assn
Oct 19	Houston, TX	DoC/Export Financing Seminar
Oct 20	Williamsburg, VA	Annual Va. Conference on World Trade
Oct 29	Chicago, Ill	Argonne Labs/ Financing Nuclear Power
Nov 3	New York City	N.A.M.
Nov 3	New York City	Amer Foreign Insurance Assn
Nov 4	Washington, DC	ETC Multiplier Conference
Nov 9	Washington, DC	Construction Industry Manuf. Assn
Nov 14-15	Washington, DC	Technical Marketing Society of America
Nov 16	Washington, DC	Robert Morris Associates, Cheaspeake Chapter, Credit Information, Exchange Committee
Nov 17	Washington, DC	Wash/Balt Regional Assoc.
Nov 19	Washington, DC	Federal Bar Assn
Dec 2-3	New York City	Int'l Banking/World Trade Institute
Dec 9-10	Wilmington, DEL	Seminar/Strategic Minerals & Int'l Economic Assistance
Dec 14	New York City	Export Trading Companies

1983

Jan 7	Washington, DC	CSIS
Jan 10	New York City	World Trade Institute
Jan 12	Memphis, TN	Kiwanis Club of Memphis
Jan 13	Boston, MA	Conference on Export Finance Int'l Business Center of New England
Jan 14	Washington, DC	Pacific Basin Economic Council
Jan 14	Washington, DC	CEE
Jan 24	Providence, RI	New England Trade Conference
Jan 25	Coronado, CA	Nuclear Conference Amercian Nuclear Society
Jan 26	Pittsfield, MA	Multibank International
Jan 27	Seattle, WA	ASEAN Conference
Jan 27	Seattle, WA	World Trade Association
Jan 28	Washington, DC	Society for Int'l Development
Feb 2	Washington, DC	Nat'l Foreign Trade Council "Will Eximbank See Its Shadow?"
Feb 8	Oklahoma City	Oklahoma World Trade Assn
Feb 8	Washington, DC	NAM Issues Berakfast
Feb 8	Washington, DC	IMDI
Feb 14	Charlotte, NC	Textile Club
Feb 14	Raliegh, NC	Triangle Int'l Trade Assn
Feb 19	Rosslyn, VA	Foreign Service Institute
Feb 23	Chicago, ILL	Amer-Israel Chamber of Commerce
March 2	New York City	Countertrade: Int'l Trade Without Cash, Legal Times and Law & Business, Inc.
March 10	Washington, DC	Nat'l Assn of Bank Women

March 11	New York City	American ASEAN Trade Council
March 14	Washington, DC	Electronics Industries Assn
March 15	Washington, DC	Industrial War College
March 19	New Orleans, LA	Machinery & Allied Products Inst
March 21	College Park, MD	Univ of Md: Int'l Management Finance Seminar
March 22	Manhattan, KS	KS State Univ Int'l Trade Institute - 9th Annual Int'l Trade Conference
March 22	Kansas City, MO	US Commercial Banks Luncheon Con
March 25	Washington, DC	ARMCO Financial Service Group
March 30	Miami, FL	So Fla Mnfgrs Assn and Fla Exporters and Importers Assn
April 5	Alexandria, VA	United Virginia Bank Executive Export Conference
April 6	Washington, DC	Machinery & Allied Products Ins.
April 6	Washington, DC	Eco Policy Conf: Cong. Tallon
April 6	Hartford, CT	Exporters Forum: Hartford Bank and Trust
April 7	Washington, DC	Washington Export Council
April 7	Chicago, ILL	Int'l Operations Conference American Bankers Association
April 10-14	San Jose, PR	B A F T/ Panel Presentation
April 13	Arlington, VA	Aviation/Space Writers Conf
April 13	New York City	International House
April 14	Arlington, VA	Amer Boiler Manu. Assn
April 14	Houston, TX	Investment & Trade in Africa
April 18	Arlington, VA	Valve Manufacturers Assn
April 19	Chicago, ILL	World Trade Conference
April 20	Washington, DC	International Road Federation

April 22	Dallas/ Fort Worth, TX	I M D I
April 26	New York City	Emery Financial Seminar: Air Finance Journal
April 26	Jackson, MI	USDoC/Small Business/ETC Con.
April 28	Long Island, NY	European-American Bank International Trade Conference
April 28	Boston, MA	USDoC/Service Export Financing
April 28	Cranford, NJ	State Chamber of Commerce: Export Conference
May 3	Washington, DC	Greater Waterbury Chamber of Com
May 4	Washington, DC	Brookings Institute
May 4	Lynnfield, MA	North Shore Chamber of Commerce
May 5	Greensboro, NC	N.C. World Trade Assn
May 9	Washington, DC	USDoC; Women Business Owners, et al
May 12	Washington, DC	Advertising Council 39th Annual Washington Conference
May 17	Detroit, MI	State Dept. of Commerce Doing Business in Africa
May 18	Palm Beach, FL	Int'l Marketing Institute
May 19	Stamford, CT	District Export Council: World Trade Week Dinner
May 19	Jacksonville, FL	Nat'l Steel Fabricators Assn
May 24	Washington, DC	National Press Club
May 26	New Orleans, LA	USDoC/Export Finance Conference
June 2	New York City	US-Mexico Chamber of Commerce
June 3	Washington, DC	Conwest-Citizens for a Convention of the Western Democracies
June 7	Lehigh Valley, PA	Fuller & Co.; Mack Trucks, etc.
June 8	Fargo, ND	ND Dept of Agriculture
June 14	Palm Beach, FL	Amer Petroleum Institute
June 16	Washington, DC	American Assn of MESBICs

June 23	Los Angeles, CA	IMDI
June 24	San Francisco, CA	San Francisco/Calif. Council on International Trade
June 24	San Diego, CA	San Diego Chamber of Commerce, World Trade Assn of San Diego
June 24	New Britain, CT	Small Business Conference Congresswoman Nancy L. Johnson
July 11	Washington, DC	Minority Business Dev Agency
July 19	Salisbury, CT	Int'l Trade Forum
July 19	Washington, DC	Wash Int'l Center
July 19-	Charlotte, NC	American Textile Machinery
July 28	Miami, FL	Fla Int'l Bnkrs Assn Assn Mid-Year Management Con
Aug 3	Washington, DC	President's Task Force on Private Enterprise, Committee on Food & Agriculture
Aug 30	Chicago, Ill	Ill State Dept of Commerce
Sept 9	Miami, FL	IV Hemisphere Congress of Latin Chambers of Commerce
Sept 14	Burlington, MA	US DoC
Sept 15	Seattle, WA	Amer Assoc of Port Authorities
Sept 16	New York City	US Council for Intl Business
Sept 19	New York City	N F T C
Sept 20	San Francisco, CA	CPA/Bankers Annual Dinner
Sept 20	Homestead, Va	Nat'l Fluid Power Assn
Sept 20	New York City	Colt Industries Credit Managers
Sept 22	San Diego, CA	Aerospace Industries Assn
Sept 22	Washington, DC	Treasury - ETC Conference
Sept 26	Parsippany, NJ	Intl Trade Conference Congressman Roukema
Sept 27	Washington, DC	Corporate Executive Development US Chamber of Commerce

Sept 27	New York City	U.S. DoC, NY Chamber of Commerce & Industry
Sept 28	Philadelphia, PA	Bucks County Intl Dev Corp.
Sept 29	Tampa, FL	Tampa, FL International Trade Conference
Sept 30	Cleveland, OH	South East Asia Conference Oberlin College

Mr. BILIRAKIS. How do you get the particular bank representatives here to these 2-day seminars? And how do you contemplate getting them to the seminars, the breakfast or whatever the case may be, down in the community? Is this going to be just in the form of a letter to all banks, or just to particular banks that have shown an interest in the area? How do you plan to do that?

Mr. BOYD. We will be working with the banks that we have worked with in the past, in many cases, but we are also going to be combining our list with banks that SBA suggests that we contact for both those breakfast meetings and follow-on calls, which we intend to do in conjunction with SBA.

Mr. BILIRAKIS. But banks that have not shown any interest for whatever reason in the past, will they be left out altogether? Or will they have an opportunity to take part, will they be advised by letter or literature or whatever the case may be? What we are trying to do is spread the knowledge even to those particular banks, because hopefully we can improve the market.

Mr. BOYD. Yes, we have set up a broad-based letter of invitation. We intend to restrict it to a group that we believe has some international trade background. The only area of our programs that touches on the domestic marketplace is the export trading company loan guarantee program, and under that program we look to the exporters for our reasonable assurance of repayment. It, therefore, basically becomes a domestic instrument as far as credit is concerned.

All of our other programs, of course, look to the foreign buyer for our reasonable assurance of repayment. So the numbers of banks that we have dealt with have been completely different than the ones that we now have an opportunity to deal with through the new export trading company program, because the banks we have dealt with in the past had to have the ability to make an international credit judgment.

When the export trading company program came into being, we sent out mailings to all of the banks on SBA's banking list, which is some 14,000 or 15,000 banks. We sent out a mailing at that point in time to introduce them to the export trading company loan guarantee program and to also make them aware of the other programs we have in trade finance.

Now, the export trading company loan guarantee program can be used by a domestically oriented bank. The type of collateral that is used is international in orientation; it is either export accounts receivable or exportable inventory. But it is basically a domestic credit judgment using those two types of securities.

Mr. Bilirakis. I want to be sure, Mr. Chairman, that we are not going right back again to the larger banks, the ones who have been dealing in international business. It is not solving the problem at all if we don't get some of the others like the bank in Lakeland, Fla., for instance.

Mr. Ireland. I would agree with you and I hope that we can get an additional response. I realize Mr. Boyd, that selecting banks to address this problem that Mr. Bilirakis and I are concerned about is not necessarily your bailiwick and I understand, if I am correct, that SBA has been asked to furnish some names. I guess I am a little taken, as Mr. Bilirakis was, that here our great big—I guess ironically—prestigious Eximbank is going to rely on SBA to pick its banks to invite to something. That sent up a red flag for me as well as him.

Mr. Boyd. It is very important to recognize the difference that this new program brings to Eximbank, because prior to the export trading company program, all of our programs looked for our reasonable assurance of repayment to the foreign buyer, which meant an international credit judgment, and a bank that had the capability——

Mr. Ireland. I guess, again with due respect to the fact you have gotten to know how hackles go up when I hear somebody—and not you as an individual—saying that they are looking for people that have the ability to make an international credit judgment and somehow making a limitation that has been made to mostly large banks around the Nation. There is a real mixed-up mentality with our associates at the Eximbank if they are looking for somebody that can make that kind of judgment.

Some of our very large banks have been making some pretty sorry international credit judgments and I have seen an awful lot of very small banks that undoubtedly are not on Eximbank's list because they are never invited to anything. They can run circles around them credit judgmentwise, and I am afraid that what we have to realize is that these people at Eximbank think that they are the only people that know anything about international finance. That is just not so and they are really missing the boat.

I would send a message back through you that if we are going to help small business and the rest of the country, that the people in the Eximbank need to start being not so self-important and begin looking into what goes on in America. There are some plenty small banks out there that can do some pretty sophisticated financing, and that have a lot more sophisticated people than the people in the Eximbank.

Mr. Boyd. I don't think there is any question about that and we would readily agree with you. What we would say, however, is that when the small businessman goes to the banks with a $50,000 transaction, for example, he has to go to a bank that is willing to respond to those funding needs. If he goes into a large money center bank, for a proper return on investment they would like to get a deal for something in the neighborhood of $1 milion and up.

With the regional banks, the same thing applies, except on a more limited scale. They would like to look at something around

$500,000 and up. The smaller business that is going to be working with the smaller bank has a very dramatic problem, and what we are trying to do is assist them in the education of those problems. This is the first time that we have had an opportunity to move into that marketplace because with the smaller transaction that is involved, he has to go to a smaller bank and the smaller banker is looking for his proper return on investment—at least this is the input that we have had so far.

Mr. IRELAND. Let me suggest to you, Mr. Boyd, to forget the new program, even if you didn't have it.

Mr. BOYD. It is very important.

Mr. IRELAND. For the purpose of this thing, if the Eximbank is going to do business with the rest of America's business, instead of paying lip service to it, they have to get out there and deal with the same thing that the small businessman deals with. He is dealing with the small- and medium-sized bank probably more often than the large bank. The large bank has got a problem of dealing with the small.

If your programs for all of these things aren't directed to dealing with the small- and medium-sized banks, and if you are too snotty to deal with them, and make a criteria that you are going to pick some people who know about "international credit judgment," you are flawed in your thinking. You don't have a corner on international judgment.

Mr. Draper was just sitting here talking about how many bad loans he has got. If you are going to deal with the small- and medium-sized business you have to be talking to the banks that are small and medium size. You are only talking to the great big banks and great big businesses like yours.

Now, I want to see, and I think the thrust of what you are hearing through the Congress, is they want to see us dealing and marketing and working. I tend to think you don't have the financial expertise and judgment. If you are going to do it, you have to get out and market it yourself. You have to start dealing with the people that are dealing with small business and medium-size banks dealing with small business. They have got every bit as good a judgment and perhaps better than some of the big deals in the Eximbank.

My thrust to you is to bring that message to the Eximbank. It goes without saying that I know your background, and of everything that you have done for small business. I am calling attention to a banking area and hopefully sending a signal that will help you in bringing the Eximbank into the real world of what small and risk-taking business is all about.

Let me ask one other question.

Mr. BILIRAKIS. Mr. Chairman, in addition to the information for the report that you have requested, regarding the past seminars and other informational gathering mediums, as well as to the future ones, possibly we might get from him some idea of the criteria they use for inviting banks to these things?

Mr. IRELAND. That would be good. We are trying to make this go for small business. If we have a mentality you are running up against in the bank that says you have to be big to have international bank credit judgment, we have got a flawed problem in the bank that the committee and you have to help the bank get over.

Mr. **Boyd**. I will take that back. I would only say that within the smaller banks if the small business comes in and is perceived—as we are often told that he is—to be a greater risk than a larger business—and I personally will disagree about that—but if he is told that by that banker who feels that he is a greater credit risk and he also has to sell the idea that he is trading internationally, we have got to make the attempt somewhere in there to bridge that gap. They need to recognize that they do make extremely good domestic credit judgments and there is nothing to preclude their making the same judgments internationally.

By bringing in those banks through the export trading company program, you get them into preexport financing, and this is going to assist in forcing that bank to become more familiar with the terms that are used in international banking.

Mr. **Ireland**. If you prejudge who can make those kind of credits, you are not going to have very many people at your seminar with what we understand is your judgment.

Mr. **Boyd**. That is our entry and it is working.

Mr. **Ireland**. One last question, and again, I want to emphasize throughout this that some of the areas touch your responsibilities as small business but they also get off into other areas. I don't mean to put you off in the other side. When we are talking about training domestic bankers, my understanding is that Eximbank has a program for training foreign bankers. Is that correct?

Mr. **Boyd**. Not since I have been at the Bank. There may be foreign bankers and foreign bank branches that have officers who attend our seminars. A foreign bank financing program for U.S. exports existed, I think, some 5 or 6 years ago, but it is not currently existing.

Mr. **Ireland**. Could you ask them to send us some specific information as to what extent we train foreign bankers in our program at the present time?

Mr. **Boyd**. Yes.

Mr. **Ireland**. Again, you are very kind to come up here to help fill out the testimony and I appreciate it. We appreciate what you are doing there and, again, we hear all kinds of good things about what you are up to. We support it very strongly.

I would like to call now, Gwen Pritchard, the legislative representative of the National Federation of Independent Business, and Mr. Carlo Gentilomo. He is here to testify for the U.S. Chamber of Commerce. I want to call to the attention of everyone here that within her organization, Gwen has done great things as far as calling the attention of the small business world to the importance of export. I commend you for it, Gwen, and we are glad to have you here.

TESTIMONY OF GWEN PRITCHARD, LEGISLATIVE REPRESENTATIVE, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Ms. **Pritchard**. Thank you. Certainly, we have to return that thank you to you, Mr. Chairman. Since I began working with you when you first came to Congress, you have been encouraging small businesses and the Government to get more involved in exports. These efforts have resulted in a lot of legislation, not the least of which is the set-aside program, which we hope will be implemented by the Eximbank for small firms.

Someone said recently, why are you going to participate in oversight hearings of a set-aside that has yet to be enacted? I think it behooves the small business community, not to just criticize Eximbank's behavior in the past or its attitudes, but to come up with some real suggestions as to how we think the set-aside can work and their whole attitude can be improved.

As you know, NIFB has 500,000 small business members. We are really glad to see a growing interest in improving export financing from the Eximbank. In an era when a large U.S. trade deficit is doing considerable damage to the American economy, it is in everyone's interest to improve the ability of small businesses to export their products and services.

It is my understanding that exports currently represent only 9 percent of our GNP. For every billion dollars of exports, you are talking about a creation of somewhere around 25,000 jobs. So we should all be concerned about changing this.

Unfortunately, since its founding in 1945, the Eximbank has served primarily as a reactive institution rather than a stimulator of exports. They, of course, basically have been dealing with large industries, as we have heard in the past. We feel that such a stance can no longer be justified in the face of growing trade deficits. We also are aware of many studies, most of which have come to light because of a GAO report that came out earlier this year. That study found that large numbers of small companies are interested in exporting but so far, a smaller number are actually doing so. Even though they are interested.

I read an article recently about an export seminar in the State of Idaho, which we don't think of as one of our great exporting States. Someone in the local development agency there indicated that currently they have an export trading level of about $1 billion, but they felt their potential was $10 billion if they could get more assistance from the Federal Government.

Of course, the problem has been access to Eximbank. They don't look to the small firms as potential exporters. We were interested in noting that the Overseas Private Investment Corporation has been very successful in its own efforts to improve exporting by smaller firms and cooperatives. There really is no reason to believe that similar results cannot be obtained by the Eximbank.

We believe that that section of the Eximbank reauthorization legislation which does set aside a specific percentage of Eximbank assistance for small firms is the kind of impetus that is necessary to develop an active small business export market.

Predictability is something that is as important to our members as it is to General Motors and to IBM. Small firms try to plan ahead, and while Chairman Draper has indicated his own personal commitment to improve small business participation with the bank, we think that a law is absolutely necessary so that administrations in the future will also be committed to working with small business exporters. So we are glad to see the set-aside as a first step foward.

I was somewhat disappointed by Chairman Draper's comments about NFIB not participating in a meeting Eximbank had. I am afraid that might have been a case of the left hand and right hand not talking. However, I will tell you that we do stand ready to help in the outreach program.

We are currently developing a trade survey we want to send to our members which will identify not just the problems they may or may not be having with Eximbank, but problems they are having in trade. If they perceive themselves as exporters, if not, why not? What can we do, what can the Government do, to increase that? That will be something we will be working on at the end of this year and the beginning of next year.

It is interesting to note that we estimate that between 1 and 2 percent of our membership, which would be approximately 5,700 to 11,400 companies, currently are involved in export trade. Initially, these firms represent clientele for the Eximbank services and it would be simple enough to reach them through NFIB communications channels. We have a number of publications and media vehicles which go out regularly to the membership. Special mailing outreach efforts are possible. In addition, NFIB has capacity to serve a role in educating those members who do not export but are capable of doing so. Working together with the officials of the Eximbank, NFIB should be able to generate a substantial clientele for the bank.

Let me make two particular suggestions, one of which Chairman Draper has already made. We would be delighted to see a simplified brochure of the services that Eximbank offers. We also think they should address that same kind of simplification to their application process, both for the benefit of small and large businesses.

In addition, we think it would be very helpful if the bank has a listing of those banks they deal with and any consortiums that may develop. If I am in Missouri and want to export, I can determine if there is a bank in the vicinity that I can go to, who can help. I don't know that such a list exists, but we would suggest that Eximbank compile such a listing.

My second suggestion, is to encourage the Eximbank to follow the Senate directive to look to service industries for increased U.S. exports. Services are the fastest growing sector of our economy and certainly the American export market. They must not be ignored and they must receive equal treatment with other exporters.

One other useful approach would be a systematic program of communications with medium size regional banks and their local community oriented banks. Certainly State banking associations could be helpful with this. For example, the Senate version of the Eximbank bill would set up a consortium of banks, State financing corporations, SBIC's and export trading companies, to extend lines of credit or guarantees to small exporters. We believe that such an approach would provide an important intermediary between the small firms and the Eximbank which is located in Washington, D.C. and has no branches. A network of this type will be important. The financial institutions that would make up the consortium are presented with business opportunities on a very regular basis and could flag those firms they feel ought to be exporting.

I would like to speak for one moment and give you our thoughts on what a consortium might look like and what it might be able to do. We perceive that it would be a partnership between these local banks and State financing agencies and the Eximbank, much like the SBA now functions with its guaranteed loan program.

The consortium could put up some seed money, if you will, certainly no more than the 10 percent that, again, is in the SBA loan program. The consortium could be a local arm of the Eximbank, in essence privatizing the public sector. They would be given a line of credit from Eximbank to make loans to small firms, who, of course, otherwise qualify for Eximbank loans and guarantees. That means there is a reasonable assurance of repayments and that they have a customer market set up. Remember, by definition these folks would have to have a familiarity with local exporting capabilities, certainly far greater than the Eximbank does being located in Washington, D.C.

In setting standards for establishing the consortiums, NFIB would suggest that the private sector and those half a dozen or so States that currently have export financing agencies be consulted. Again, they offer special insights into the capabilities of local firms to export.

In summary, NFIB strongly supports the efforts of the Chairman and encourages small business exporters to familiarize themselves, of course, with the Eximbank opportunities. We realize there is a clear need for education, both by the banks and by the potential clientele. We strongly support any efforts to achieve the goal of the legislation that is waiting final action by the Congress as far as reauthorizing and we hope to see an expanded role for U.S. exports for small business.

Thank you.

[Ms. Pritchard's prepared statement follows:]

PREPARED STATEMENT OF GWEN PRITCHARD, LEGISLATIVE REPRESENTATIVE, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

On behalf of the more than 570,000 small firms that make up the National Federation of Independent Business (NFIB), we appreciate this opportunity to discuss making export financing from the Export-Import Bank available to smaller firms. In an era when the large U.S. trade deficit is doing considerable damage to the American economy, it is in everyone's interest to improve the ability of small businesses to export their products and services.

Since its founding in 1945, the Exim Bank has served primarily as a reactive institution rather than a stimulator of exports. The Bank has funded large scale projects in certain industries, such as aircrafts, mining and energy, where opportunities have presented themselves. It has not sought to play a strategic role in developing export markets or actively sought to expand its use by a broader range of American companies. Such a stance can no longer be justified in the face of growing trade deficits.

Small businesses in European countries have traditionally been much more active in exporting than their counterparts in the U.S. A 1980 study by the University of Wisconsin's Small Business Development Center of 7800 small manufacturers found 53% to be capable of exporting and half of these (26%) expressed an interest in doing so. However, only 13% of the companies were currently exporting. Similar studies by the New York/New Jersey Port Authority and the State of Illinois, among others, found that large numbers of small companies were interested in exporting, but a far smaller number were actually doing so.

Despite the apparent opportunities that exist to increase small company exports, a General Accounting Office report issued earlier this year concluded that the small business community does not have access to Exim Bank assistance. For fiscal year 1982, less than 3% of the direct loans and loan guarantees made by Exim Bank went to small firms, even though the Bank is mandated to actively assist in the development of small business exports. Interestingly, in 1978, Congress mandated the Overseas Private Investment Corporation (OPIC) to strive for 30% of its insurance and guarantee efforts to involve small business firms and cooperatives. According to OPIC's Annual Report for 1982, it would appear that such a goal is achievable: 37% of the 131 projects involved small firms or cooperatives, involving $123 million of risk insurance, $10 million in direct loans, and $26 million in loan guarantees.

There is no reason to believe that similar results cannot be attained by the Exim Bank. Today's financial institutions are sophisticated enough that all medium-sized regional banks are capable of handling an export loan, and most small, local banks can do so readily via their corresponding relationship with larger banks. We believe that the section of H.R. 2842 which sets aside a specific percentage of Exim assistance for small firms is the kind of impetus necessary to develop an active small business export market.

As the largest association representing small businesses, NFIB can certainly help to bring our members and the Exim Bank together. We estimate that between one and two percent of our membership (approximately 5,700 and 11,400 companies) is currently involved in export trade. These firms would represent an initial client base for Exim Bank services, and it would be simple enough to reach them through NFIB communication channels. We have a number of publications and media vehicles which go out regularly to the membership, and special mailings or outreach efforts are possible. In addition, NFIB has the capacity to serve a role in educating those members who do not export but may be capable of doing so. Working together with officials at the Exim Bank, NFIB should be able to generate a substantial clientele for the Bank.

One useful approach would be a systematic program of communication with medium-sized regional banks and their local, community-oriented banks. For example, the Senate version of the Exim Bank bill would set up a consortium of banks, state financing companies, SBICs, and export trading companies to extend lines of credit or guarantees to small exporters. We believe that such an approach would provide an important intermediary between small firms and the Exim Bank. Because the bank has no branches and is located in Washington, DC, it will need a network of this type. The financial institutions that would make up the consortium are presented with business opportunities on a regular basis and could flag those firms that they feel ought to be exporting.

In summary, NFIB strongly supports the effort to encourage small business exports through access to the Exim Bank. We stand ready as a national organization to utilize our resources and capacities to bring those with an opportunity to export together with Exim Bank programs. It is not sufficient, however, to simply adopt a set aside program within the Bank and then wait for small firms to come to the Bank. There is a clear need for education, both of the Bank and its potential clients, outreach, and network development in order to achieve the goal of this legislation: an expanded role in U.S. exports for small business.

Mr. IRELAND. We have a vote about to go on. Mr. Bilirakis and I are going to have to go. I am very anxious to have your testimony in the file, as well as to answer some questions that we have here. At the same time, I don't want to inconvenience you any longer by waiting for us to come back.

What I would like to do is ask the staff director, Mr. Lynch, if he will take over here, accept the testimony, and get through the various questions we have so we don't delay you. What you both have to say, No. 1, is important to our record and two, is important to some of the questions we will be asking the Eximbank to respond to from this point on. So if you will excuse Mr. Bilirakis and me, we will take off. Again, we thank you for being here and for making a substantial contribution to what is going on.

Mr. LYNCH. Your statement will be put in the record.

Do you have a summary here or would you rather read the statement?

TESTIMONY OF CARLO B. GENTILOMO, PRESIDENT, CONTACT SYSTEMS CORP., ON BEHALF OF THE U.S. CHAMBER OF COMMERCE, ACCOMPANIED BY JEANNE L. MORIN, LEGISLATIVE COUNSEL

Mr. GENTILOMO. Mr. Lynch, the first observation I have is that I met Chairman Ireland twice before. I assume he is fleeing because he knows I have a foreign accent.

Mr. LYNCH. He is coming right back, unless there is a second vote, which would delay them about 25 minutes. He didn't want to delay everything. They should be right back.

Mr. GENTILOMO. This is only to say that my accent for once is going to be an asset because we are talking about international issues.

I am Carlo B. Gentilomo, president of Contact Systems Corp. I am appearing today on behalf of the Chamber of Commerce of the United States and its Council of Small Business. Accompanying me is Jeanne L. Morin, legislative counsel to the chamber's center for small business.

Contact Systems Corp. is an international business communication and strategic planning company headquartered in New York City with worldwide agents and liaisons. We assist companies who wish to develop or expand their presence in foreign markets by organizing international management systems, export sales operation, and partnerships in general. We work with small, medium, and large-sized companies. I know you received the full statement of the chamber. If you will allow me, I am going to present here a condensed version of it.

Mr. LYNCH. The statement will be put in the record as is.

Mr. GENTILOMO. Thank you. I would like to qualify the Chamber of Commerce of the United States as a good participant in this kind of debate. The chamber of commerce has always been a strong advocate of participation of small and medium size business in the life of this country. Nowadays, with our $60 billion trade deficit, up about 100 percent from last year, and threatening to go up to $100 billion by next year, we have to make the necessary efforts to get the base of the small business into action, get them to export and get them to participate in the international economic life of the country.

We have to commend your subcommittee, because after discussing with your subcommittee, the chamber decided to establish what we call an export expansion task force in the small business committee, which is set up to reach out and provide information to people through the chamber's network of about 40,000-member organizations, local chambers of commerce, and other interested organizations.

You had hearings, in September 1982 that led you and us to believe that export financing is an obstacle in export trading but there is also a lack of awareness in general, and probably this is going to be studied or should be studied more. I think it is part of the discussion that Chairman Ireland had with Chairman Draper of Eximbank.

We are setting out to bridge this gap and we can do it because, although we have a very good position here in Washington, we also work very much at the grassroots level through the local chambers of commerce. Earlier this year, we have effected a very interesting survey. We have figured out which local organizations are good and have good programs or are aware of export techniques; what problems they encounter once they want to go ahead with these kind of programs, what they need and especially who are the leaders. I think there is going to be a very important function in finding leaders that are going to spread the word about exporting.

Then another point is how the local organization can have access to know-how, and this was brought up by Mr. Keisling of Tennessee before. We are providing that.

Now, I have a personal footnote that doesn't appear in the written statement. It is my opinion that there is a lack of commitment, and this is a big problem. We have to spread awareness, knowledge, excitement, because if we spread commitment, we are going to dispel fears, and there is great fear in mid-America about what comes from Washington, from the big guys. The banks are big banks and Government is big Government; and poor people who have a small company and really have created something that could be palatable to some foreign market are afraid to move.

Now, we assist or try to assist Eximbank, for instance. We spoke with Garrett Boyd as we met at the Eximbank. They have a 20-city seminar project in which we would like to participate even more because I think we have a good grasp of who the people are that are going to light the fire.

We assist the SBA. They have a 15-city campaign, and we are giving access to OPIC to use our television network, which is certainly a great asset of our chamber, for their "Operation Opportunity" which takes place on November 16.

What we do is, we gather information, we listen to recommendations, we listen to suggestions and then we elaborate, or would like to elaborate, on assistance that is based on commonsense and bring it to the attention, or let it be utilized by Eximbank, the SBA, et cetera.

Here, I think I have another little footnote. It is useless to be tough with the Eximbank and criticize SBA and criticize all these organizations. I think there are mistakes in both camps. If you want to allow me to blast a little on both sides, the Eximbank is certainly not doing all that it can do, but given a chance, they may improve their capacity to dialog with the small businessmen.

The small businessmen are also to be blamed for not sticking out their necks and trying to get information. If you really wanted to have information, really, if you wanted to get involved in exporting. Therefore, if exporting became a national issue, then the small businessman would also come out and reach for Eximbank, through the chamber, maybe through Gwen's group, for instance. Information is available, but people are lazy.

Now, a few observations on the problems that we have encountered within the small business world, and some of them have been brought up by other people testifying here today. I think that we had an incredible array of problems and maybe we can summarize them now. The small business or small company or corporation doesn't have foreign subsidiaries, and here we are talking about big business against small business.

Big business has subsidiaries abroad that can take advantage of those Government programs abroad that are pretty sophisticated, a little more sophisticated than the program we have here, mixed credits and others. This by itself is a depressant; it is a moral handicap. It doesn't push people to come out. We have to get into becoming a little more Machiavellian when we have to deal with other governments and when we have to elaborate our own strategies. I think we can do that better.

The OPIC: If a small business must take a 25-percent equity position in foreign purchasing companies, let's forget that side of assistance.

The Private Export Funding Corporation is generally geared to big sales, sales of aircraft, powerplants, and whatever. The World Bank, African Development Bank, Asian Development Bank, International American Development Bank: They need presence abroad to assist foreign governments and foreign government people to help them out in their choices, and in the procedures that they have to follow in order to do business with the United States. Therefore, this is really the field of the multinationals.

Trade barter groups, for instance, Sears World Trade: They generally deal in large dollar transactions of commodities that are not really the type of production we are talking about. Insurance programs, by definition, insure against default, but they do not finance; it is not a financing arm, and as a matter of fact, as far as insurance is concerned, some, such as American International Group, have a minimum premium of $50,000, which is pretty steep for a small businessman.

Big banks, I assume the big banks would be very happy not to know what we are talking about this morning, so let's forget that.

The answer is the regional bank or local bank. The problem is the local banks, at least the ones that I have seen, although they are good professionally, seem very fragile in international matters. I think they are as fragile as the export newcomer and they need a lot of explanation and reassurance. Because if you want, this fragility at the level of local banker or the small bank, is a natural effect of what has been our education.

This is another little footnote: I would like to bring it up because it really concerns me. Neither our education nor our real needs have ever given us incentive to look abroad. If you go and try to find international people in America you really can count them on the fingers of a few hands. It is not a criticism, it is only a consideration. America has been rich enough to be satisfied with its own domestic business, and has adopted the rule of minimum effort. I think that any country would have done what the United States has done, given the same historic conditions.

Nevertheless, now we are at the beginning of a completely new ball game. We are in the global village at this point, and we really must emphasize international education. Education can be adult education, not only elementary education. At the same time, there would be nothing wrong in revising a little our elementary, junior high school, and high school education, getting the young Americans to learn a little more about foreign history, foreign geography, foreign economy.

It is pretty distressing to travel with Americans abroad and as they see the Swiss franc or French franc or the Greek drachma, where each denomination has a different color, say this is "monopoly money." I say, "Hell, monopoly money, this is money that serves the economy of very powerful countries, such as Japan and Germany." For instance, countries that are quoted and mentioned several times a day, as the culprits of our trade deficits are who we are talking about.

Back to the regional banker. The regional banker gets 1 percent on transactions with the Eximbank midterm program. In order to get a little more, he shares with Eximbank the insurance risk fee. The problem is that when he shares the fee, he shares the risk and that risk eventually is going to be passed on to the small businessman. At this point, the businessman has to consider whether he has to mortgage his business, his home, his car, his wife, his children; God knows what. Because of what we said before, why should he do it, he has a fantastic market in Nebraska, a fantastic market in Oklahoma and New Mexico. Why should he now try to sell in other countries?

I think that this is the task that we can suggest to Eximbank. The ideas today can be really condensed in a few points. I think that as far as risk analysis is concerned, it is the task of Eximbank. It is up to them to figure out what the foreign risks are, it is not really the role of the businessman. He knows his own almost by definition

Eximbank has to standardize its commercial risk coverage. This has to be done for a very simple reason. If Exim does so, the States can step in with their own risk coverage, with their own programs, and the States are very eager to work. For instance, the State of Indiana passed legislation that would allow the state to assist the businessman. Unhappily they can't implement this legislation because of the variation in risk coverage by Eximbank and also the lack of standardization. There must be some kind of stability.

There should also be a little more credit given to the local banks. The regional banks and local banks should be able to self-approve credits for up to $5 million for a single transaction. Of course, it is $5 million for those banks who have a fine reputation and know what risk is all about, and know their business, and I must add here Eximbank knows or should know, or could know very easily which banks are the banks that could do that.

One possible special case is the one in which the small businessman is involved with sales in a country that has no economic stability. I am talking about countries such as Brazil and Mexico. Now, I mentioned quite a few others and possibly if the Eximbank could in such cases open a direct line with the businessman, it could work along with the Foreign Credit Insurance Company, for instance, for loans of up to $500,000; and for loans that are higher, Eximbank could possibly have a special desk for special situations where it could directly assist the small businessman.

Also if I can turn around and talk for a moment to Garrett Boyd, they should really use us a little better, use Gwen a little better, use me a little better, Jeanne Morin, who is legislative counsel with the U.S. Chamber of Commerce. We have the capacity to really set up a nicely packaged job for you. You are bankers. I was a banker too, and bankers don't know business. They are good in what they do, but they don't know business. They have one function and I think maybe you should limit yourselves in doing this, and then tap us and tap all the organizations like the National Association of Manufacturers or the Chamber of Commerce of the United States, and let us design and possibly even partially perform those seminars that you want to do.

I have done this with the chamber in Springfield, Mass., and some very, very exciting people were really working with us. I got the Swiss Trade Commissioner and the Trade Commissioner of Singapore to come up to tell American exporters how to sell abroad. So if it is possible to do it in Springfield, it is possible to do it in Kalamazoo and other cities.

I have come to the conclusion I have blasted enough. I think that one last point should be brought up and it is that I am afraid that our way of facing international business or international economy in America is tantamount to putting too many eggs in the same basket. We are counting too much on the large corporations. I have been speaking with people over at General Dynamics, General Electric, and United Technologies and they were saying don't worry, we are going to be the multiplier, just make the widgets and we are going to sell them, we'll put them in the engine and the engine is going to be sold to the Airbus Industries in France.

This way you can go bankrupt. It wouldn't be the first time you see a big corporation disappear from one moment to the other. We have seen blue chips disappear. That is the point. There are hundreds of smaller companies working for those larger companies and pretending or dreaming they are exporting; but if the larger companies suddenly fail, they are not going to export any more because they don't know what export means.

We really can, and have to make a very concerted effort. I think that you are doing a fantastic job focusing the attention of Government on this very important matter, and I thank you very much for letting me speak to you.

[Mr. Gentilomo's prepared statement with attachment follows:]

PREPARED STATEMENT OF CARLO B. GENTILOMO, PRESIDENT, CONTACT SYSTEMS CORP., ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

I am Carlo B. Gentilomo, President of Contact Systems Corporation. I am appearing today on behalf of the Chamber of Commerce of the United States and its Council of Small Business. Accompanying me is Jeanne L. Morin, legislative counsel to the Chamber's Center for Small Business.

Contact Systems Corporation is an international business communication and strategic planning company headquartered in New York City with worldwide agents and liaisons. We assist companies who wish to develop or expand their presence in foreign markets by organizing their international management systems, export sales operations, and partnerships in general.

The U.S. Chamber is a strong advocate of encouraging smaller businesses to export. Faced with a national trade deficit of more than $60 billion, we recognize the importance of increased export activity on the part of small- and medium-sized firms in increasing America's competitiveness in world markets.

This Subcommittee's efforts to spotlight small business exporting problems and its leading role in passing legislation to improve access to export financing have set the stage for small businesses to enter the export market. It is now up to the business community to work with the Export-Import Bank (Eximbank), the International Trade Administration, the Small Business Administration, state governments, and the private regional banks to develop the awareness and the programs that will bring small companies into that market.

HOW THE U.S. CHAMBER'S SMALL BUSINESS NETWORK CAN LOCATE POTENTIAL SMALL BUSINESS EXPORTERS

One of the chamber's significant roles is as a broker of ideas, information and people through the federation of almost 4,000 state and local chambers of commerce and trade and professional associations that are our members.

We are pleased to have had the opportunity to work directly with this Subcommittee in playing that role over the last two years. In fact, this Subcommittee was part of the stimulus that brought about the formation of a small business export expansion program in the U.S. Chamber. You encouraged us and prodded us into action. First, volunteers and staff of the Chamber met informally in late 1981 with members and staff of the Subcommittee to find a way we could focus more attention on exporting.

From that discussion, a Task Force on Export Expansion was formed in the Council of Small Business. We began contacts with about 60 local chambers with effective international departments and we set out to identify the primary obstacles to exporting for small firms.

When you conducted a hearing in September 1982, it was clear that export financing was an obstacle. It was also clear that lack of awareness of the benefits of world trade was an obstacle. The Task Force set as its primary mission to work to bridge the gap between small potential exporters who need help or information and the people and agencies capable of giving help or information.

After the hearing, the Task Force began developing a system of contacts with a broad segment of local and state chambers of commerce and trade associations to help us learn what they are doing in the export trade area and what they feel they need in order to work more effectively with their smaller company members. The contacts could be useful to guide the U.S. Chamber on the particular needs of our organization members and, at the same time, could offer encouragement to chambers and associations that were not yet involved in international trade activities.

It is important to point out here that if our role is one of being a broker, our mode of operation is primarily one of working through other organizations. The Chamber has great strength in Washington because of its staff and committees. It has equally important strengths at the grass roots level because of its thousands of member chambers of commerce and associations.

Together, we form a unique self-help federation in which we are able to contribute our own special skills and capabilities while being supported, in turn, by the different skills and capabilities of other members of the federation.

The ability to identify and mobilize small business owners in large numbers is a unique attribute of local chambers of commerce. This access provides a critical multiplier for work at the national level.

We found from our early contacts that lack of information and lack of expertise on trade activities were obstacles for local chamber international trade activities. Therefore, if we were to capitalize on the multiplier effect, we needed to give increased support to local chambers.

In a variety of ways, the Chamber has taken steps to bring more local and state chambers into active outreach for small companies capable of exporting. For example, there are regular monthly international trade shows on the Chamber's BizNet telecommunications network. With Federal agencies, we have sponsored national teleconferences on international trade.

Earlier this year, the Chamber surveyed the staffs of its local and state chambers of commerce and selected trade associations to produce the first systematic information on the specifics of international trade programs operated by these organizations. The survey sought information on what these organizations do in their program, what problems they encounter, what information or guidance would help them to start or expand an export development program, and who are the leaders of their efforts.

The survey results provided a foundation for a new data base of several hundred chambers of commerce and associations. Not only do we now know that they are interested in, we have names and addresses of key staff and business executives who can help identify new opportunities.

In many parts of the nation now, we can make a few strategic contacts and achieve a substantial penetration of two important audiences: the informed, active leaderships who can make things happen for small business, and the group of small companies capable of exporting but not now involved in export trade.

Another important step taken by the Chamber was the establishment two months ago of a Small Business Programs staff to devote full time to helping member organizations work more effectively with their small companies. In earlier years, the

Small Business Center staff was responsible for both legislative and program activities. In Washington, legislation is the imperative, and the staff found itself responding to program needs of the association and chamber of commerce members only when there was time left after taking care of legislative needs.

Now, there are two parallel staffs, one specializing in legislation and one in programs. Our most experienced staff member, Ivan Elmer, has become the director of Small Business Programs, and he will be able to assure that the outreach and organization development needs of our small businesses will not be a second priority. An activity related to export financing is a good case in point.

We have begun direct contacts with the Eximbank to assist in its series of seminars with leaders in 20 major cities across the country. Our role is to help identify the top leadership in the banking and business community to participate in the seminars and then to carry on the local information effort under sponsorship of the local chamber of commerce.

We are working in similar fashion with the Small Business Administration in its intensive public information program in 15 key cities. We are working with the Overseas Private Investment Corporation (OPIC) in its November 16 "Operation Opportunity" to help attract business leadership.

In each of these cases, we start with organizations and with the leadership of the business community, to gain an understanding and commitment on their part to the need of following through. The series of refinements we are suggesting for the Eximbank itself are intended to be carried to the small business community by the local banking and business leadership.

With this basic approach, therefore, we are able to help hundreds of organizations to work in their own self-interests to promote small business exports. And from these organizations, we are able to share in the contact with small business exporters and potential exporters. It is a networking approach that has served us well and, we are confident, will work even better in the future.

SUGGESTIONS FOR MODIFYING EXIMBANK PROGRAMS FOR EASIER SMALL BUSINESS ACCESS

Unlike multinational corporations, small companies do not have overseas factories to which they can shift production when fully competitive export financing is not available in the United States to support the export sale of their products. Many multinationals also have access to Eximbank counterparts in foreign countries and to other foreign government export financing programs for competitive financing. These alternatives are not available to small business.

OPIC is not a viable financing alternative for small business because it requires the exporter to take a 25 percent equity position in the foreign purchasing company. Likewise, the Private Export Funding Corporation ordinarily is not an option for small businesses, since it primarily backs overseas sales of airplanes, power plants, and other big-ticket, long-term projects.

Agencies such as the World Bank, International American Development Bank, African Development Bank and Asian Development Bank finance export sales, as well. However, large companies are also at an advantage for getting this funding because their subsidiaries can offer to assist foreign governments in deciding what projects to pursue. As a result, those companies generally are awarded the contracts.

The larger, emerging trader-barter companies such as Sears World Trade so far appear to be out of small businesses' reach, since they generally require large-dollar transactions of commodities that are well beyond most small companies' resources.

Finally, insurance programs such as the Foreign Credit Insurance Association (FCIA), even when available, do not provide actual financing of an export sale; they only protect against default. Many small companies with export capability are not able to self-finance their foreign sales. The American International Group insures export sales, but its minimum premium is $50,000—well beyond the resources of most small or first-time exporters.

International and money center banks are generally not interested in supporting the export activity of small business since these sales transactions are usually too small to attract their attention.

Therefore, small exporting firms will be looking to regional banks, supported by Eximbank programs, as their primary source of export financing if they are going to enter the export market in significant numbers.

However, the one-percent interest rate margin regional banks are allowed to charge on transactions financed with Eximbank's medium-term program is not sufficient to compensate the regional bank for initiating and servicing small business. In their effort to make small export transactions more viable, most regional banks agree to share some commercial risk with Eximbank in return for a portion of the one-time, commercial risk insurance fee charged to the foreign buyer. This up-front payment makes small transactions, which otherwise would be too costly, more attractive to regional banks. However, the commercial risk exposure they incur is usually passed on to the small exporter as a condition for financing the sale.

This puts small firms, who actually have a contract in hand for an export sale, in the position of mortgaging their businesses and any other assets they may have in order to cover the risk the Eximbank has passed on to the regional bank, and the regional bank in turn has passed on to the small exporter. Understandably, most smaller firms are reluctant to put their livelihoods on the line for a single export sale. Assessing and accepting commercial risk exposure should be the responsibility of professionals at Eximbank or regional banks, not the responsibility of small companies that lack the expertise to make informed decisions about the risks they are being asked to assume.

Commercial risk coverage

Eximbank could ease this situation by standardizing its Commercial Risk Coverage at 90 percent for single-sale transactions up to $10,000,000. This standardized risk would make it possible for individual states to step in with supplemental commercial risk insurance to encourage export sales in their areas. For many states, the standardization of commercial risk coverage is the single most important change Eximbank could make in its programs as they exist today.

In fact, Indiana already has legislated authority to do this, but has not been able to implement the program because of changing, non-standardization Eximbank programs.

Discretionary lending authority

A second essential element in stimulating smaller company exports is the regional banks' discretionary lending authority. Expanding this authority, commensurate with a bank's claims experience, will reduce paperwork, speed up loan processing and make such lending more attractive to the regional banks, especially those that already have established a working relationship with the small company interested in exporting.

Banks supporting the most favorable credit rating should be allowed to self-approve credit on single-sale transactions up to $5,000,000. Banks supporting a lesser credit rating should be allowed to self-approve credit on single-sale transactions of lesser amounts.

By establishing a regular reporting mechanism for all newly approved loans, Eximbank can assure constant knowledge of the amount and type of support committed. Should it appear at any time that Eximbank is in danger of exceeding its lending authority, special procedures could be instituted until the situation is alleviated.

If Eximbank does not increase its discretionary lending authority, increased activity by regional banks will create an administrative nightmare and a paperwork burden Eximbank itself acknowledges it cannot handle.

We do not believe regional banks will reduce the quality of their loans if the foregoing recommendations are adopted, since Eximbank maintains a performance listing on all banks using its programs and will take remedial action against any bank abusing its authority.

Direct lending program

Standardizing commercial risk coverage and expanding discretionary lending authority should open the way for regional banks to support export sales effectively for small- and medium-sized U.S. companies. However, these actions will not solve small businesses' export financing problems in countries such as Mexico and Brazil, where regional banks will not participate due to country conditions. Yet Eximbank has continued to provide lines of credit to support the economy of these countries.

For these countries, small businesses need to be able to deal directly with Eximbank. Eximbank could effectively handle an expanded direct lending program by working through FCIA regional offices to administer the credit and lending process for transactions up to $500,000. For transactions exceeding $500,000, Eximbank would have to expand its in-house direct lending capability.

CONCLUSION

Recent attempts by Eximbank to reach out to small firms and listen to their unique problems and concerns reflect a desire to encourage greater small business participation in its programs. The U.S. Chamber applauds Eximbank's efforts in this area and hopes the suggestions presented today will be useful in helping achieve greater small-business access to Eximbank's lending resources.

We look forward to continuing our work with Eximbank to develop and implement procedures for small business, and plan to use our own resources to provide a clearinghouse for potential small business exporters.

Finally, while Eximbank holds the key to small business export financing, it is the responsibility of all interested parties—the Congress, federal agencies, state governments, and the business community—to get the word out to small, would-be exporters to consider exporting opportunities.

Without increased small-business export activity, the United States' share of world trade will likely continue to decline—and the standard of living of its citizens may suffer, as well. By bringing more small companies into the export market, however, we can improve our balance of trade, and to the nation's tax base, and generate sustained, long-term employment growth at a time when jobs are needed most.

Again, we commend Chairman Ireland and members of this Subcommittee for their perseverance in identifying and trying to alleviate the problems small companies encounter when entering the export market. We appreciate the opportunity to testify and will be happy to provide the Subcommittee and Eximbank with any information or assistance we can supply.

Mr. LYNCH. I appreciate that.

In your own State of New York, what movement is going on there at the State level? Are you aware of any? Have they thought at all about this concept of a State bank such as Tennessee or other States? Is there movement in that State?

Mr. GENTILOMO. The State of New York was even thinking about creating its own Eximbank but the State of New York is a special State. I would say it is a State where many big companies are and I do not know if it is really the prototype that we can use. I am more interested I think in that phenomenon in Indiana. I am very interested in this case in Tennessee that was brought up today. Those are I think excellent initiatives. Now, they have to be coaxed, they have to be put together, they have got to have a network, and eventually there must be some kind of national direction, and this national direction comes from the Federal Government, of course, the Federal Government has to back them.

Mr. LYNCH. You made a good point in your testimony. We couldn't keep Mr. Draper here today. Do you know if anybody has made an approach to the bank from the chamber or anywhere else on the question of standardizing the risk program? You gave us a very good example of the State of Indiana. Even though they are ready to go, they can't become involved because their program isn't standardized by Eximbank.

Mr. GENTILOMO. We have been in touch. I was part of a small panel. As a matter of fact Mr. Von Allmen was at that same lunch. He knows his business. He represents our anguish and also what we can do.

I want to believe that the Eximbank is going to keep an open ear and get back to us. We have a lot of things to share with them. It is very tempting to have a program and to stick to this program. I understand very well what the political implications are. I was quoting Machiavelli before, so I understand what their problems are. That is why I blasted the small businesses, because I think that they also carry part of the blame.

Let's say that we are at the beginning of a new era, that we really want all to work together. Chairman Ireland came twice to the chamber to speak to us, and he really was not only involved over the lunchtime or whatever, it was a constant back and forth between this subcommittee chairman and the chamber and we see what the result is: The subcommittee practically induced the chamber to, first of all, give more importance to the small business; and No. 2, to set up the export expansion task force.

Now, within the export expansion task force, I might add, we might have attrition, we have people who are not patient enough. Unhappily, this is a sickness of this Nation and we have to cure it. If people think in short term and think they are going to make a quick buck selling abroad, they are out of their mind. It is never going to happen like that. But at least there is movement. Now, if the Eximbank can keep dialoging with you, keep dialoging with us, we are not stupid, I think that we have a bank of brains in America that could beat the Japanese on their own turf, so what are we waiting for?

Mr. LYNCH. I think the gentleman from Tennessee, the small businessman from Tennessee, made a good point. It took him 18 months before he got his first order. For a while he was about $35,000 in the hole, but now he is with the program and doing well. It is not easy to start out.

Mr. GENTILOMO. Not only that, you also see that one point he had better foreign sales, this year he has only 8 percent of his overall volume in foreign sales, and yet he is not an angry person. He understands the cyclical nature of business and we all know it but we have to stop making the kind of excuses like cyclical nature of exports, or cyclical nature of certain business, or another thing, the strong dollar, which in reality is not a strong dollar, but comes across as a strong dollar. It gives the opportunity to say to everybody I can't go abroad because the dollar is strong.

Americans have sold items when the dollar was much stronger than now. In the sixties the dollar was buying 4 Swiss francs and 30 Swiss cents and now buys 1 franc and between 11 and 15 cents.

Mr. LYNCH. Ms. Pritchard, you mentioned the survey that NFIB is conducting. Is that going to be sent to all of your members or just the ones who are identified as being either in the trade area or a possibility?

Ms. PRITCHARD. No, we will probably not send it to all of our members. We will probably select certain SIC codes and it will be a random survey, not necessarily every business within those SIC codes will be selected.

Mr. LYNCH. Would you provide the result——

Ms. PRITCHARD. Yes, sir. That will not be until next year, but we will send you the results when they become available.

Mr. LYNCH. Beyond that, I would like to say you made a very good point before about excitement. There needs to be some excitement. We have been trying, but you know one of the problems is that we are only dealing with a certain percentage of the business community that has the capability to export. Within that percentage, we are trying to get others to believe. Mr. Ireland was telling Mr. Draper this morning that people must go out to these business people, and sit down with them. Mr. Von Allmen gave a very good example of being a small businessman. With all that goes on, you can't be attending seminars all the time and the like.

So we would welcome any suggestion on mass meetings or how to get the appropriate people together. As Mr. Ireland said, he is trying to get the Secretary of Commerce to sit down with Mr. Draper and Mr. Sanders and himself to maybe see how they can work together on this.

Thank you for appearing here. That will conclude today's hearing. Thank you very much.

[Whereupon, at 1:30 p.m., the subcommittee adjourned, to reconvene, subject to call of the Chair.]

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